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 2.46%.

FUND SIZE: R24 506 322

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
Box 1289
CAPE TOWN
8000

Fax: 021 674 3209
Email: equityfund@maestroinvestment.co.za

The Maestro Equity Fund

Quarterly report for the period ended

30 September 2009

1. Introduction

In this Report we comment on the Fund-specific details and analyze the investment returns over time. We will soon publish a separate document, *Market Commentary – September 2009*, focussing on the recent investment environment. We will also use the *Commentary* to share some thoughts of what we believe might happen in the coming months. 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 22.2% of the Fund, up from 21.2% in June. Financial exposure rose 1.4% to 10.1% and industrial exposure 2.0% to 58.5%. Cash represented 9.2% of the Fund, down from 13.6% at the end of June.

Chart 1: Asset allocation at 30 September 2009

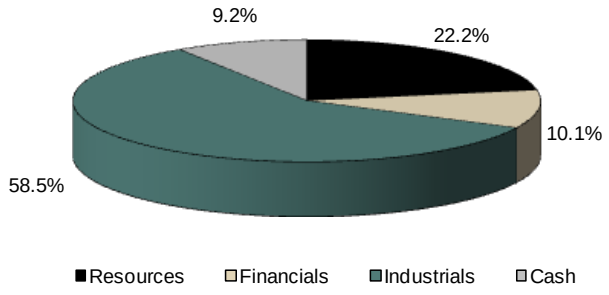
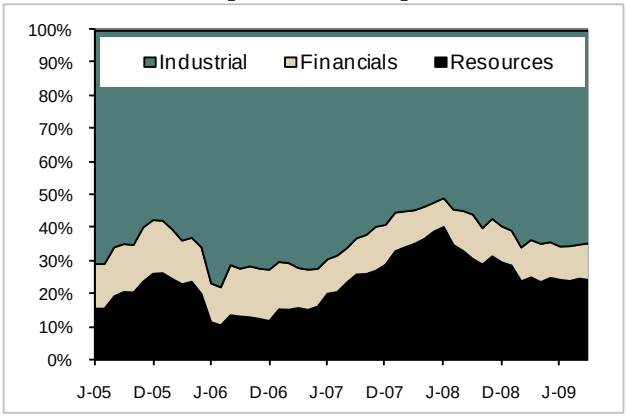


Chart 2 depicts the historical allocation to the three major sectors of the equity market, expressed as a percentage of the equity portion of the Fund.

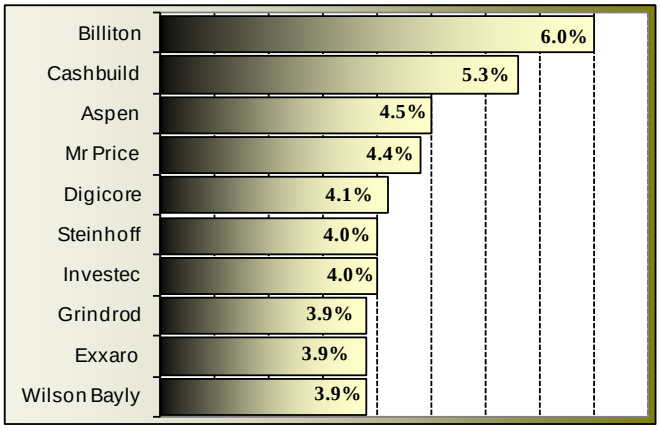
Chart 2: Sector exposure at 30 September 2009



3. The largest equity holdings

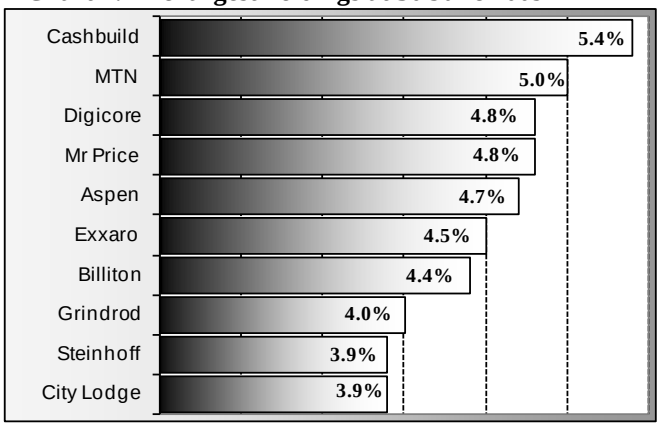
The largest holdings at 30 September are listed in Chart 3, expressed as a percentage of the equity portfolio.

Chart 3: The largest holdings at 30 September 2009



The largest holdings at the end of June are listed in Chart 4. During the quarter Investec and Wilson Bayly displaced MTN and City Lodge in the largest holdings. At the end of September there were 30 counters in the Fund, versus 29 in June, the ten largest of which constituted 44.0% of the Fund, up from 45.4% in June.

Chart 4: The largest holdings at 30 June 2009



4. Recent activity on the Fund

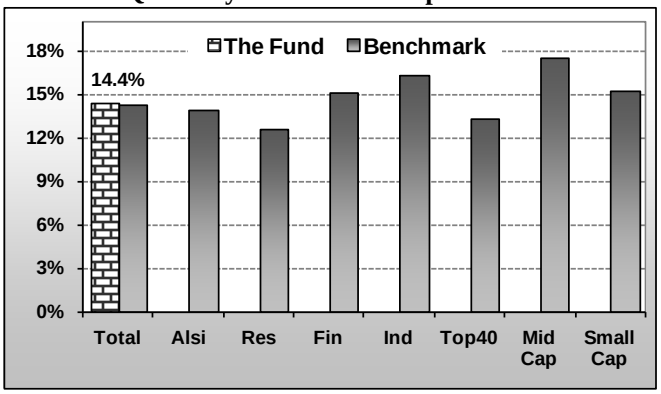
The investment objective on this Fund is to *achieve long-term growth through the assumption of moderate risk.* We would emphasise the "long-term" aspect of this objective; we are confident that the companies in which the Fund is invested will deliver long-term capital growth together with a steady increase in dividends over time. However some of the companies in which the Fund is invested are not typical large-cap companies and may take longer, particularly in the prevailing market conditions, to generate the above-average returns we expect of them over the long-term.

During the quarter Capitec was introduced into the Fund. We also received substantial inflows into the Fund, which increased its size by about 25%.

5. The performance of the Fund

Chart 5 depicts the quarterly performance of the Fund and the returns of the major indices.

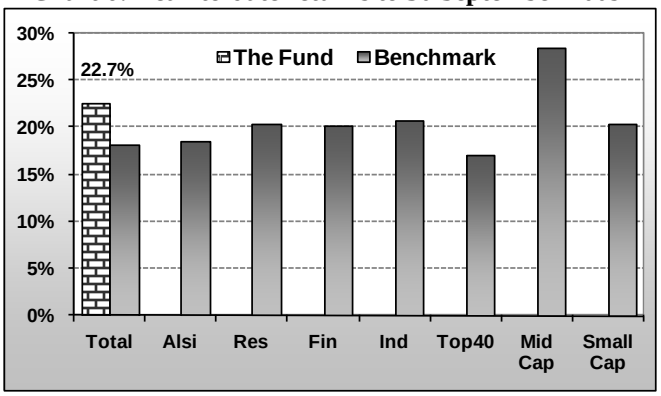
Chart 5: Quarterly returns to 30 September 2009



The Fund's return of 14.4% is in line with the Maestro equity benchmark and All share index returns of 14.3% and 13.9% respectively. The market gains were widespread as can be seen from the similarity of the sector returns. It is worth highlighting that, despite its strong rise during the quarter, the All share index would have risen more were it not for the strong rand. The latter rose 1.9% during the quarter, which may not seem like a lot but it has risen 34.7% since the beginning of February. The rand strength retarded the returns from the basic materials sector which is the most heavily weighted sector in the All share index.

The returns of the Fund's largest holdings during the quarter were Billiton 16.7% (down 6.8% last quarter), Cashbuild 18.2% (-5.9%), Aspen 13.0% (20.1%), Mr Price 21.1% (15.8%) and Digicore 0.0% (15.9%).

Chart 6: Year-to-date returns to 30 September 2009

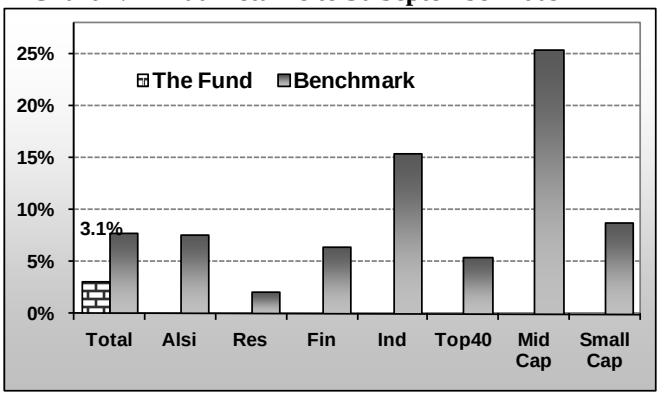


The returns for the year-to-date are shown in Chart 6. ***The Fund's return for the nine month period was 22.7%*** compared to the Maestro equity benchmark return of 18.2% and All Share Index of 18.5%. The mid and small cap indices rose 28.6% and 20.4% over this period respectively.

This might be an appropriate time to reflect of the Fund's returns so far this year. Although it is not immediately apparent from the returns in Chart 6, we have come to realise that *we have been too conservative in our management of the portfolio*. This conservatism has been manifest in two areas of our management; firstly we should have committed more cash to the market. *With the benefit of hindsight* we should have deployed more cash into the equity market – around mid-March would have been the perfect time, as the market has risen about 45% since then. The other aspect which inhibited the returns of the Fund – not that they are too shabby in absolute terms – is the fact that *the quality of the equity portfolio was too high*. This might sound counter-intuitive but when markets recover sharply it is often the companies that are more operationally and financially geared to an upturn that perform better than the companies that are conservatively run. Remember, even turkeys fly in a hurricane. Make no mistake; we are in the midst of a hurricane-type recovery. This aspect of our management of the Fund begs a couple of questions that you may like to answer for yourself. These include: are we prepared to take shorter-term views and compromise the portfolio quality for the sake of a few extra percentage point returns, what would have happened if we reduced the quality and it turned out to be the wrong stance to have adopted, and would we (or you for that matter) have slept that well at night knowing that the future returns of the Fund were dependent more on market sentiment and less on the quality of management of the underlying investments? These are some of the issues we have grappled with in recent months; our actions have been guided by our answers to these (and other) questions. When all is said and done, it boils down to a question of risk versus return. Those investors who took on more risk by committing more cash to the market and lowering the quality of their investments, have been rewarded with greater returns so far this year. Of course, there is no guarantee that this will continue, or that you are always assured of greater returns when you take on more risk. But so far this year, that has been the case.

That said we readily acknowledge we have been too cautious in our management of the Fund so far this year. In order to rectify this error of judgement, without throwing caution to the wind we are slowly committing more cash to the market. We are however not prepared to compromise on the quality of the Fund's investments. We know all too well that it is the *quality of the investments* that have secured for the Fund reasonable returns over the longer term. This is true of past returns and will surely remain true in respect of future long term returns. Without going into detail (it will be contained in the *Market Commentary*) we are now more positive on the prospects for the SA equity market and so are happy to commit more cash to the market notwithstanding the extent of the gains since mid-March.

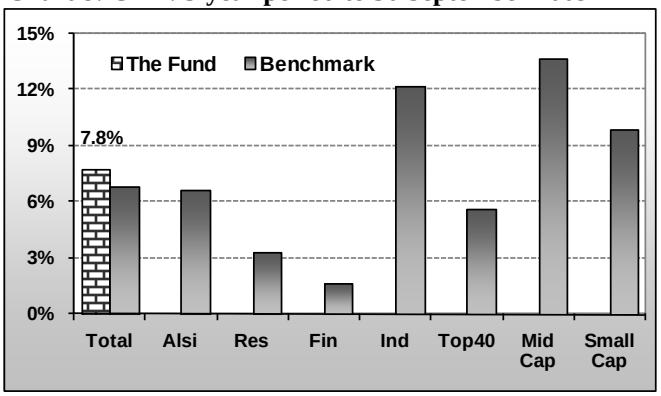
Chart 7: Annual returns to 30 September 2009



That brings us to the annual returns for the year to end-September, shown in Chart 7. ***The annual return of the Fund to September was 3.1%.*** This return is relatively low in absolute terms, but is a vast improvement on the annual return to end-June of -20.2%. Inflation rose 6.4% during the past year and the All bond index 9.1%. The annual return to September of 3.1% can be compared to the Maestro equity benchmark return of 7.8% and the All Share Index's 7.7%. The basic materials index rose 2.1%, financials 6.5% and industrials 15.5%. Not shown in the chart are the respective annual returns of the mid and small cap indices of 25.4% and 8.8%.

The main detractors from the Fund's returns during the year were Digicore, which *declined* 42.1%, Dawn 38.1%, Arcelor Mittal 26.8%, Sasol 19.3% and Anglo 14.1%. The investments that delivered the best returns in the past year include Naspers, which *rose* 59.4%, Mr Price 52.8%, Aspen 45.5%, Cashbuild 37.6%, Investec 18.4%, Abil 17.1% and City Lodge 13.9%. These gains *exclude* dividends from these companies during the period, so in actual fact their total returns were even greater.

Chart 8: CAR: 3-year period to 30 September 2009



The compound annual return (CAR) of the Fund over the three-year period to September 2009, shown in Chart 8 ***was 7.8% per annum*** and can be compared to the returns over the same period of the Maestro equity benchmark of 6.8% and the All Share Index's 6.7%. The CARs for the large (Top40), mid and small cap indices to

September, not shown in the chart, are 5.6%, 13.8% and 9.9% respectively. Unlike offshore markets the SA equity market returns over the three-year period are positive. Compare that to the CAR for the MSCI World index of -6.4% over the same period.

It is nice to see that the Fund's total returns are close to or above the returns of the major sectors in the SA equity market, despite the fact that we retained large cash balances during the past year. The Fund's returns were less volatile than those of the market over the same period i.e. the Fund was subject to less risk than the overall market. For the record, bonds and cash delivered respective annual returns of 8.0% and 10.6% over the past three years.

6. Closing remarks

I refer you again to the forthcoming document *Market Commentary – September 2009* for details of our view on the global investment environment.

In many respects the past nine months have been frustrating; it has not been an easy environment in which to manage money. Now that we are six months into the fastest bull market rally ever i.e. the biggest rally in the shortest length of time – at least on most global equity markets and the SA market is not too far behind – we have to assess what the future holds at a time that the environment remains imbued with uncertainty and risk. That is the challenge that lies ahead of us and which we will address in our Market Commentary.

May I thank you again, on behalf of the whole Maestro team, for your ongoing support and business? All the investors in the Maestro Equity Fund remain important members of the Maestro family and we look forward to serving you into 2010, which will be here faster than we care to imagine! It is going to be an historic year for South Africa and its citizens; we are looking forward to it with great anticipation. In many respects 2010 represents the culmination of millions of SA citizens' efforts, both financial and manual. It comes at a time that emerging markets, including South Africa, are more fully appreciated than ever before.

Let's enjoy the year and make the most of it!

Andre Joubert
20 October 2009