MAESTRO
Equity Fund

PRESCIENT
MANAGEMENT COMPANY

INVESTMENT OBJECTIVE
The Fundôs 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 2.11%.

Income Distribution (annually)
10.44 cents per unit
31 March 2010

FUND SIZE: R 62 552 598

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:
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Email: equityfund@maestroinvestment.co.za

The Maestro Equity Fund

Quarterly report for the period ended

30 September 2010

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 September quarter and I refer you again to the *Market Commentary* document published in September, which contained the background to the prevailing investment environment as well as a discussion of some of the factors which could play an influential role in the coming months. If you have not received this document but would like to, please email us on equityfund@maestroinvestment.co.za.

2. The investment position of the Fund

The Fundôs sector allocation is shown in Chart 1. Exposure to the resource sector totalled 28.8% of the Fund, down from 29.0% in June. Financial exposure increased 0.4% to 13.3% and industrial exposure increased 1.1% to 44.6%. Cash represented 6.4% of the Fund, down from 7.2% at the end of June and preference share exposure declined 0.4% to 6.9% during the quarter.

Chart 1: Asset allocation at 30 September 2010

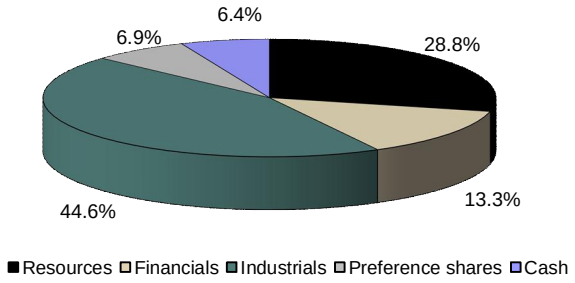
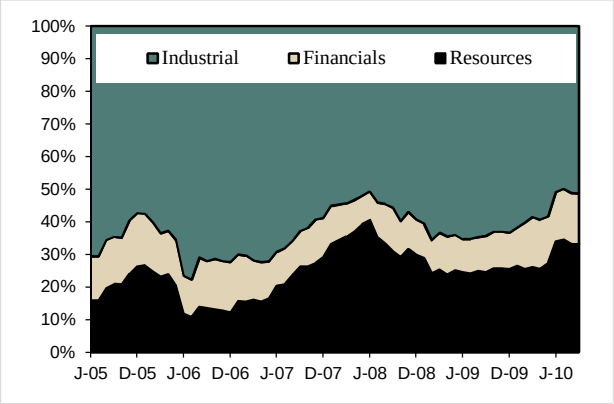


Chart 2 depicts the historical allocation to the three major sectors of the equity market, expressed as a percentage of the equity portion of the Fund.

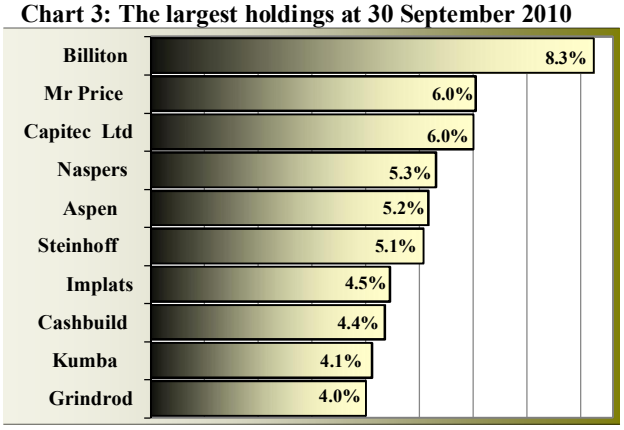
Chart 2: Sector exposure at 30 September 2010



3. **The largest equity holdings**

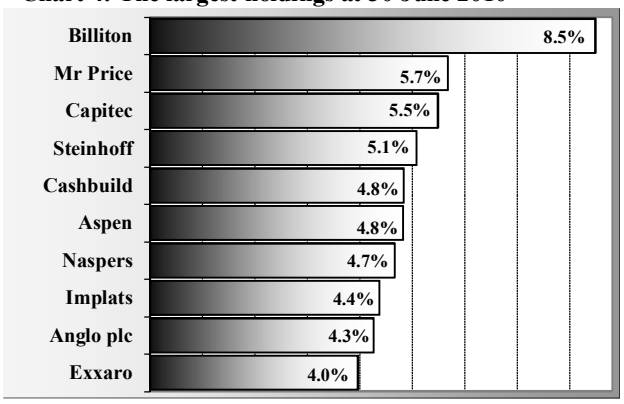
The largest holdings at 30 September are listed in Chart 3, expressed as a percentage of the equity portfolio.

Chart 3: The largest holdings at 30 September 2010



The largest holdings at the end of June are listed in Chart 4. During the quarter Kumba Iron Ore and Grindrod displaced Anglo plc and Exxaro in the largest holdings. At the end of September there were 27 counters in the Fund, versus 28 in June, the ten largest of which constituted 52.8% of the Fund, up from 51.6% in June.

Chart 4: The largest holdings at 30 June 2010



4. **Recent activity on the Fund**

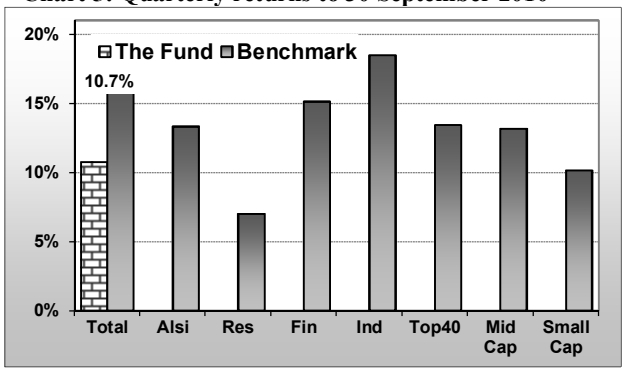
The investment objective on this Fund is to *achieve long-term growth through the assumption of moderate risk.* We would emphasise the ñlong-termò aspect of this objective; we are confident that the companies in which the Fund is invested will deliver long-term capital growth together with a steady increase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

During the quarter the entire holding in Sanyati was sold out of the fund. The Fund also experienced substantial inflows during the quarter; the capital was committed to the existing holdings in: City Lodge, Digicore, Protech Khuthele, Impala Platinum and Kumba Iron Ore.

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 September quarter was 10.7%.*** We covered the behaviour and direction of investment markets in the letters accompanying the statements and Intermezzo. Appendix A summarizes the major developments during the quarter for your convenience. It is fair to say that the past quarter was a particularly profitable one and it stands in great contrast to the June quarter, which delivered negative returns all round.

Chart 5: Quarterly returns to 30 September 2010



The Fund's return of 10.2% can be compared to the Maestro equity benchmark and All share index returns of 16.0% and 13.3% respectively. The quarter was characterised by two very strong months (July and September) and a very weak one (August). Thanks to global investorsô belief that the US Federal Reserveôs plan to injection more liquidity into the financial system will stimulate economic growth ï a belief about which we have serious reservations - investors took on large swathes of ñriskò during September. That translated into strong gains for commodity companies and currencies, of which the rand and basic material sector were major beneficiaries. At the same time it restored a bit of credibility to the basic material sector returns, which up until September were looking rather threadbare, due in part to the firm rand. You can see from the chart that

although the basic material sector return for the quarter was positive, it was eclipsed by both the financial and industrial sector returns. The mid and small cap indices rose 13.2% and 10.1% respectively.

The quarterly returns of the Fundôs largest holdings were as follows: Billiton rose 12.1% (it declined 20.3% last quarter), Mr Price 22.9% (12.4%), Capitec 26.8% (24.8%), Naspers 31.1% (-17.9%), Aspen 23.5% (-4.3%), Steinhoff 15.3% (-11.0%), Implats 0.0% (-15.9%), Cashbuild 4.0% (0.7%), Kumba Iron Ore 13.8% (-9.6%) and Grindrod 17.2% (-6.3%). You might be interested to know some of the other mid and small cap returns for the quarter: against the background of a market that rose 13.3%, B&W declined 14.8% and Metmar 6.3%, while on a more positive note Blue Label Telecoms rose 29.9%.

Chart 6: Year to date returns to 30 September 2010

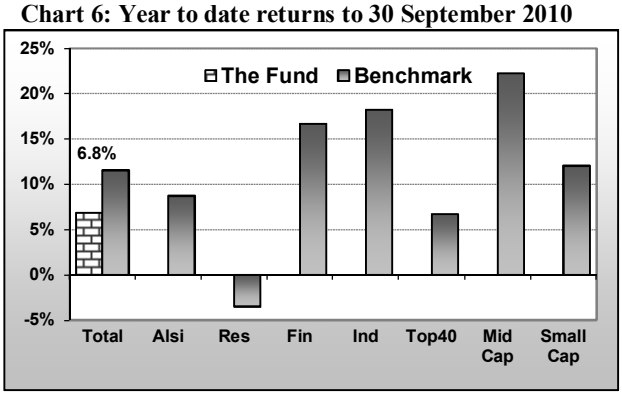
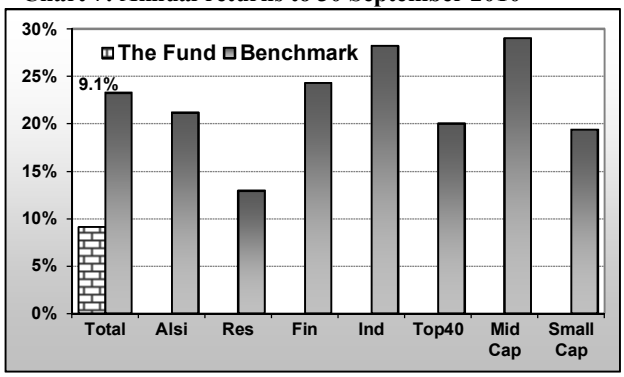


Chart 6 depicts the returns for the year to date. ***The un-annualised return on the Fund during this 9-month period was 6.8%.*** The positive returns for the past quarter turned what had been a negative year-to-date return in June into positive one in September. This can be compared to the Maestro equity benchmark return of 11.5% and the All Share Indexôs 8.7%. The mid and small cap indices rose 22.2% and 12.0% respectively over the same period, in contrast to the large cap (Top40) index return of 6.7%. One can see from the chart that the basic materials sector has lagged the financial and industrial indices badly so far this year, which explains the large difference between the year-to-date returns of the Maestro equity benchmark and the All share index; remember, the All share index has a heavier weighting in basic material shares than the Maestro equity benchmark.

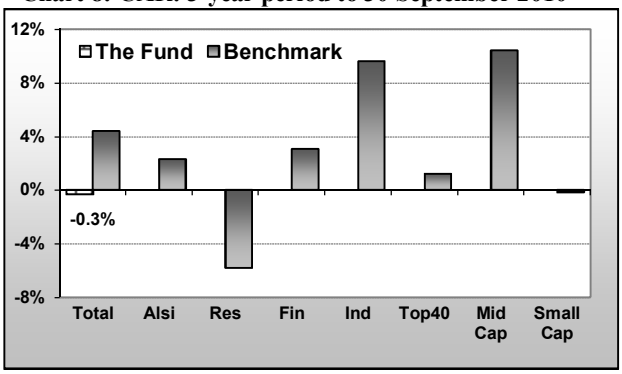
Chart 7: Annual returns to 30 September 2010



The annual returns for the year to September are shown in Chart 7. ***The return of the Fund for the year to September was 9.1%.*** Inflation rose 3.2% during the year and the All bond index rose 15.3%. This can be compared to the Maestro equity benchmark return of 23.3% and the All Share Indexôs 21.1%. The basic materials index rose 12.9% despite running into a rand headwind throughout the year; the rand rose 8.7% against the dollar during the year. Financials and industrials rose 24.3% and 28.2%. Not shown in the chart are the respective annual returns of the mid and small cap indices of 29.0% and 19.4% respectively. The main detractors from the Fund during the year to September were Arcelor Mittal, which fell 31.4%, Altech 17.7%, Metmar 13.8% (excluding the large dividend it paid during the year) and Digicore 10.1%. Investments that delivered the best returns in the past year included Capitec 144.3%, Mr Price 61.8%, Aspen 52.0%, Exxaro 33.8% and Naspers 32.8%.

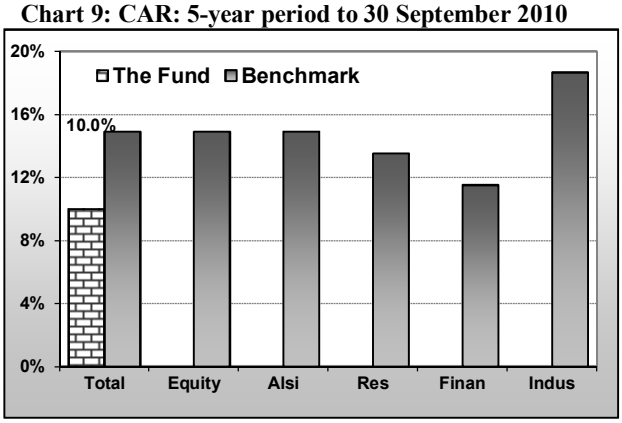
Last quarter I commented on our relative returns in the past year. I noted that we had had a disappointing December 2009 quarter, but that our March quarter had been better and the June quarter better still, despite posting negative returns in that quarter. I also commented that ñnow more than ever the Maestro team feels comfortable about the underlying companies that constitute the Maestro Equity Fundò. You can decide for yourself whether or not this proved to be appropriate. In my humble opinion, our relative returns have shown a steady improvement in the past year and, unless we get it badly wrong in the last two months of this year, should continue to improve in the December quarter. Many of the companies in which we placed our confidence, and the views which we implemented in the portfolio in the past two to three years, which have been a difficult time in which to manage money, have come to fruition. Our ñstock picksò have come good as the investment environment ï at least in South Africa ï has normalized (well, ñnormalizedò at least to some extent).

Chart 8: CAR: 3-year period to 30 September 2010



Let me turn your attention to the returns during the past three years. As I do so remember that the base off which these returns are measured is September 2007 i.e. the peak of the market just prior to the Great Financial Crisis. So we are now going to list returns from the peak of the market in recent years, which was followed by a devastating period of declining equity prices. You will therefore not be surprised to see how low the absolute level of returns is. ***The compound annual return (CAR) of the Fund over the three-year period to September 2010,*** shown in Chart 8 ***was -0.3% per annum*** and can be compared to the returns over the same period of the Maestro equity benchmark of 4.4% and the All Share Indexôs 2.3%. The returns of the mid and small cap index were 10.4% and -0.2% respectively while the respective CAR for the All Bond index and cash over this period were 10.1% and 9.9%. Remarkably, the rand declined only 0.4% per annum over the past three years. A further point to note is that South African equity investors are significantly better off than those in global markets.

Chart 9: CAR: 5-year period to 30 September 2010



Bearing in mind that the three-year CAR are measured off the peak of the market, the five year returns, shown below, show what a remarkable difference the addition of two years can make! Chart 9 depicts the Fundôs CAR for the five-year period to 30 September 2010. The CAR of the Fund over the five-year period to September was 10.0% per annum. The Maestro equity benchmark and All share index produced returns of 14.9% and 14.9% respectively. The industrial index has been consistent throughout this period as the least volatile and most profitable area of the market, which explains why we retain a large portion of your Fund in that sector.

The returns of the mid and small cap index over this period were 20.1% and 15.6% respectively, both higher than the All share index, while the respective CAR for the All Bond index and cash were 8.8% and 9.3%. The rand declined 1.9% per annum over the past five years. Despite the volatility over the period the SA market remained one of the most profitable areas in which to invest. By way of comparison, the MSCI World index declined 0.8% per annum over the past five years although the MSCI Emerging market index rose 10.2% per annum over the same period - whoever said ñde-couplingò hasnôt occurred? The Barcap US aggregate bond index rose 6.8% and cash 2.4%. When you consider how low these returns are, you realise that SA investment markets have been very profitable compared to global markets.

6. Closing remarks

I refer you again to our Market Commentary document, which we published in early September, for details of our view on the investment environment. Many of the Big Picture Themes we have consistently espoused in the past few years have or are in the process of coming into being. We expanded on some of them in the two Market Commentaries so far this year and will continue to do so into the future.

At this stage we think we have a reasonable idea of the most important risks and factors driving global markets and economies at present. However, we are mindful of being complacent, as it generally leads to an accident. Although we think we have identified most of the major risks, of course identifying them and experiencing their eventual effects are two different things. We continue to watch the global economy diligently, conscious of the fact that we are by no means ñout of the woodsò that constituted the Global Financial Crisis of 2007 ï 2009.

We are relatively comfortable with the levels of the SA equity market at present, although it has risen quite strongly over the past two or so months. We may well have seen the best levels so far this year, but to be frank it is hard to see what will change the major factors driving global investor sentiment at present, namely a weak dollar caused by too much money being printed and artificially suppressed interest rates, slowing growth in developed economies, and strong growth in emerging ones. As usual, we suspect the most disruptive factors are

likely to emanate from abroad; hence our ongoing bias in favour of monitoring global events over local ones.

We continue to believe that equities represent the most promising asset class for the foreseeable future. At the time of writing equity markets continue to rise on the back of the Fedôs actions to weaken the dollar and lower interest rates. The SA equity market delivered another month (October) of positive returns and we are cautiously optimistic that the December quarter will provide a positive end to what has been a rewarding year so far, notwithstanding its bumpy start.

Andre Joubert
On behalf of the Maestro team
10 November 2010

Appendix A

A summary of market behaviour – September 2010

As you are aware we comment extensively on market movements from month to month in *Intermezzo* and the letters that accompany your monthly statement. So we will provide only a short summary of the salient features of investment markets during the September quarter.

Table 1: Quarterly Returns for 2010 so far

	March quarter return (%)	June quarter return (%)	Sept quarter return (%)	Year to date return (%)
Japan	5.2	-15.0	-0.1	-11.2
Hong Kong	-2.9	-5.2	11.1	2.2
Germany	3.3	-3.1	4.4	4.6
UK	4.9	-13.4	12.9	2.5
US (S&P500/ large cap)	5.4	-11.3	10.7	2.3
S&P Mid cap index	8.7	-9.9	12.7	10.4
S&P Small cap index	8.3	-9.0	9.3	7.8
MSCI World index	***2.7***	***-13.3***	***13.2***	***0.9***
Brazil	2.6	-13.4	13.9	1.2
Russia	8.9	-14.8	12.6	4.4
India	0.4	1.0	13.4	14.9
China	-0.5	-26.4	10.7	-19.0
MSCI Emerg market	***2.1***	***-9.1***	***17.2***	***8.7***
JSE All share	***4.5***	***-8.2***	***13.3***	***8.7***
JSE All share ($)	***4.8***	***-12.0***	***24.5***	***14.8***
Basic materials	2.6	-12.1	7.0	-3.5
Financial	9.9	-7.8	15.1	16.7
Industrial	4.4	-4.5	18.5	18.2
Large cap (Top40)	3.8	-9.4	13.4	6.7
Mid cap index	8.7	-0.7	13.2	22.2
Small cap index	5.5	-3.6	10.1	12.0
All Bond index	***4.5***	***1.1***	***8.1***	***14.1***
Cash	***1.8***	***1.7***	***1.7***	***5.3***
Barcap US Agg. bond	1.6	3.5	2.5	7.8
Emerging market bonds	2.4	-0.3	8.7	11.0
US 10-year bond	1.0	8.3	4.5	14.3
US Corporate bonds	2.7	3.3	4.9	11.3
US high yield bond	4.8	-0.1	6.7	11.7
Cash (US dollar)	0.0	0.0	0.0	0.1
DJ CS Hedge index	3.1	-2.4	4.9	5.5
Brent (Oil)	6.1	-9.3	9.7	5.6
Gold	1.0	11.5	5.1	18.4
CRB Commod.	-3.5	-5.4	11.0	1.2
S&P GS Com index	0.3	-6.7	8.9	2.8
Euro dollar	-5.7	-9.5	11.5	-4.9
Sterling dollar	-6.1	-1.4	5.3	-2.4
Rand dollar	0.3	-4.2	9.9	5.6

Global investment markets

Table 1 provides the usual summary of the market events during the September quarter. I have also listed each separate quarter as well as the year-to-date returns, so that you appreciate what an unusual period the year has been so far. The March quarter saw markets still rising on the hope that the global economy was in a sustainable recovery. The June quarter brought with it the realization that the future was not as clear as many had thought. Concerns about unity in the Eurozone, sovereign debt crises in some countries and concern about the sustainable rate of growth of the Chinese economy all added to market uncertainty.

All these concerns were summarily set aside when the US Federal Reserve indicated that it was prepared to inject additional liquidity into the markets in an effort to get banks to lend and consumers to spend. Whether one agrees with their thinking or not the effect was dramatic; what had been a volatile unprofitable year so far changed into one which generated respectable returns with the hope of more to come; and all of this in the space of just a few weeks. Charts 1 and 2 show just what a difference the Fedôs action made.

Chart 1: Going nowhere fast; monthly market returns

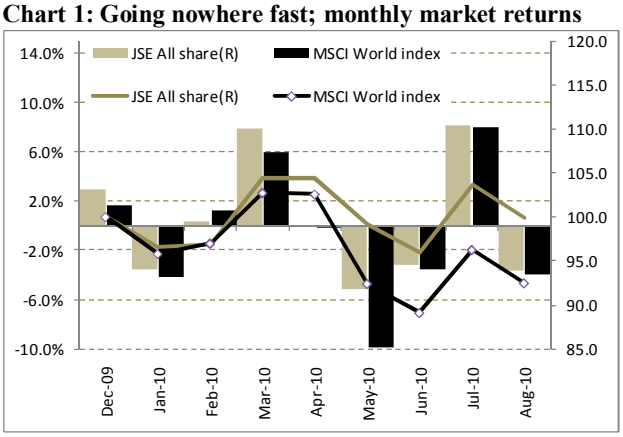
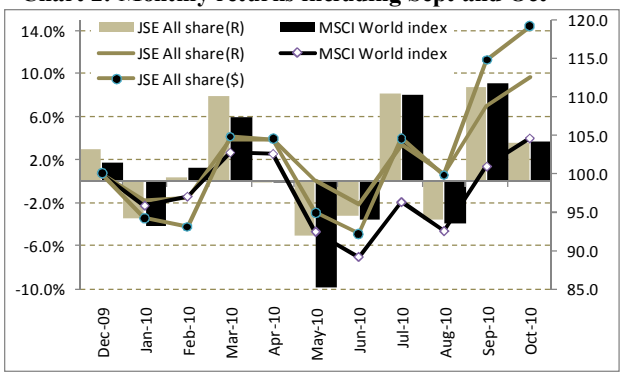


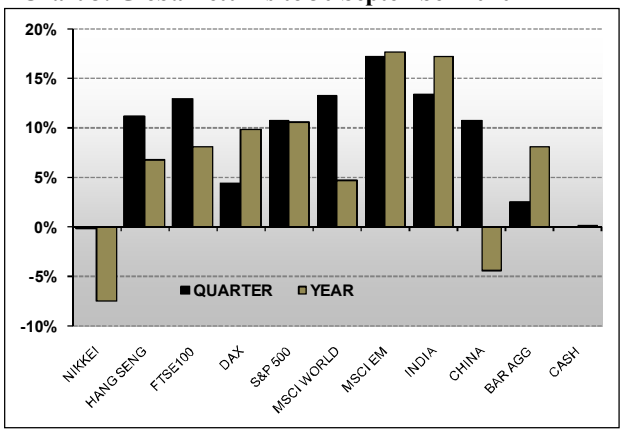
Chart 1 shows the SA and world equity marketsô monthly returns (the histograms) between January and August 2010, while the lines show the cumulative returns. Note how volatile they have been. In the case of global markets half the time returns exceeded 5%, either positive or negative. Yet when all was said and done, the fact that the black line ended August below where it started shows that the cumulative return for this period was in fact negative (-7.5% to be exact). For all the risk and volatility endured, you were rewarded with no return (actually a loss). The SA market mirrored global markets although its year-to-August decline was less (-0.1%). Now letôs add September and October to see the effect Ben ñBoom Boomò Bernankeôs announcement had.

Chart 2: Monthly returns including Sept and Oct



In Chart 2 we have added the September and October returns and have included the cumulative return of the All share index in dollar terms (the black line with the blue dot). Note how sharply all the lines have risen in the past two months, pushing the year-to-date SA market return comfortably into double digits. So in short, global equity markets posted comfortable gains during the quarter, with most emerging markets rising more than developed ones. Chart 3 lists selected quarterly and annual returns to end-September for global markets, while Chart 6 lists local returns.

Chart 3: Global returns to 30 September 2010



Having looked at the actual returns, it helps to also see how the markets developed during the past few months. Chart 4 depicts the US equity market during the past year. Of course, the Fedôs broadcast of its intentions was not very positive for the dollar, which continued its slippery slide after the brief rally earlier in the year during the European sovereign debt scare. Chart 5 depicts the dollarôs movements in euro terms. The weak dollar is becoming an increasing problem for many agents in the global economy; from countries struggling to manage very firm domestic currencies to commodity users who are seeing prices sky rocket on the back of dollar weakness.

Chart 4: The US Equity market (S&P 500 index)

Back to April highs; most of the recovery in the Sept quarter

Source: Saxo Bank

The gold price has been major beneficiary, at least in dollar terms, and has received a lot of headline space. However, a large part of its strength is little more than dollar weakness. There have been many other commodities, especially widely used ones like food and industrial metal, whose increasing prices are adding unwelcome inflationary pressures to countries that can least afford it.

Chart 5: The euro dollar exchange rate

The dollar has lost almost 17% since June high

Source: Saxo Bank

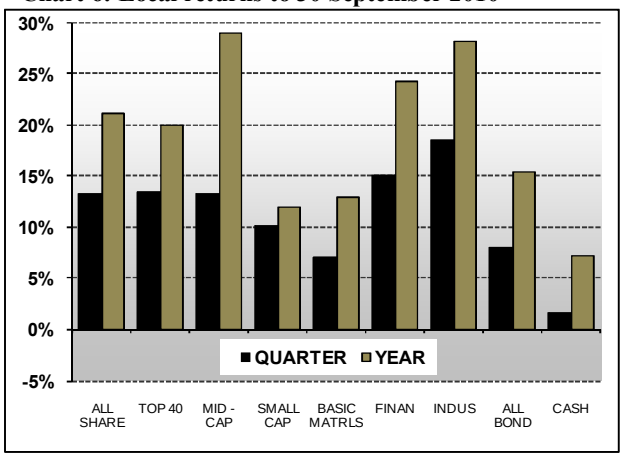
To put these commodity price increases into perspective, consider that the prices of copper, nickel and aluminium *rose* 23.1%, 20.4% and 26.2% during the September quarter. But they *declined* by 16.6%, 22.5% and 19.8% respectively during the June quarter. See what I mean when we talk about volatile markets? The prices of gold,

silver, platinum, palladium and oil rose 5.1%, 17.8%, 8.5%, 28.5% and 9.7% respectively. The commodity complex thus saw dramatic price increases during the September although the rise in the gold price, as we pointed out earlier, was something of a laggard despite all the excitement about the metal.

Local investment markets

Chart 6 depicts local market returns during the quarter. The All share, large and mid cap index returns were all similar. The rand firmed 9.9% during the quarter ï refer to Chart 7 - yet the basic materials index rose 7.0%. This is counter-intuitive; seasoned investors in the SA market would have expected the basic material index to decline in the face of such rand strength. However, it is easy to understand when you consider the strength of commodity prices during the quarter. The real excitement though, came in the form of the financial and industrial indices, which posted quarterly returns of 15.1% and 18.5% respectively ï decent returns in anyoneôs language.

Chart 6: Local returns to 30 September 2010



Last quarter we alluded to the ñbase effectsò by which we meant one needs to be careful when evaluating returns these days, given that the bases off which they are measured are very different, depending on the period being measured. These differences are caused by all the volatility we have experienced in recent times. While the base effect was less influential during the past year and quarter, it has played a major effect on the three-year returns. I would encourage you to revisit our explanation in the June Quarterly Report to refresh your memories on this important aspect of performance evaluation.

That concludes the summary of market developments during the third quarter of 2010. I again draw your attention to the *Market Commentary* we published recently. It contains valuable insights into the prevailing investment climate and more importantly sheds light not only on our current investment thinking but also includes two wonderful articles on *The case for equity investment* and *The case for mid and small cap investment*. The lessons expounded in these articles will not date very quickly and remain extremely relevant for all serious long-term investors. I urge to read them if you havenôt already done so. If you have not yet seen or read them and would like us to send you a copy of the *Market Commentary*, please contact us for a copy.

Chart 7: The rand dollar exchange rate

Testing record levels ï but itôs actually a weak dollar story

Source: Saxo Bank

The December quarter has begun well. The Fed has not changed its tune yet, and has now committed itself to a $600bn injection into the global financial system; time will tell what the long-term effects on investments markets will be, but so far so good. We have quite strong reservations about the Fedôs policy and are still wary of many risks in the prevailing environment which, at least in our opinion, are not being fully acknowledged (priced in) by investors. However, it seems that investors have adopted a ñwait and seeò attitude in terms of what the Fedôs policy holds for them. Irrespective of its success, the prevailing outlook for low developed market interest rates and growth, and strong emerging market growth and high rates, looks set to continue for a while.

Hereôs hoping we have more good news to report when we revert back to you on the behaviour of markets during the December quarter and the year as a whole.

The Maestro Investment Team
10 November 2010

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.