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: R27 444 292

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

31 December 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 – December 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 24.2% of the Fund, up from 22.2% in September. Financial exposure rose 0.4% to 10.5% and industrial exposure 1.8% to 60.3%. Cash represented 5.0% of the Fund, down from 9.2% at the end of September.

Chart 1: Asset allocation at 31 December 2009

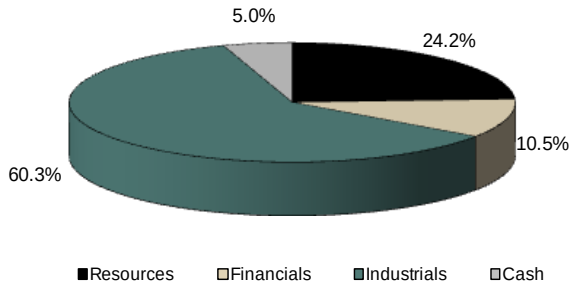
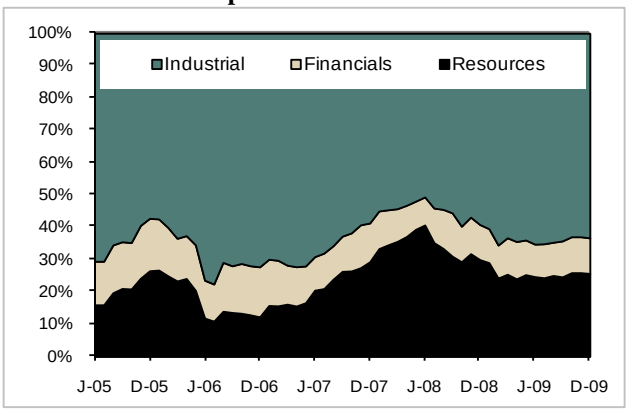


Chart 2 depicts the historical allocation to the three major sectors of the equity market, expressed as a percentage of the equity portion of the Fund.

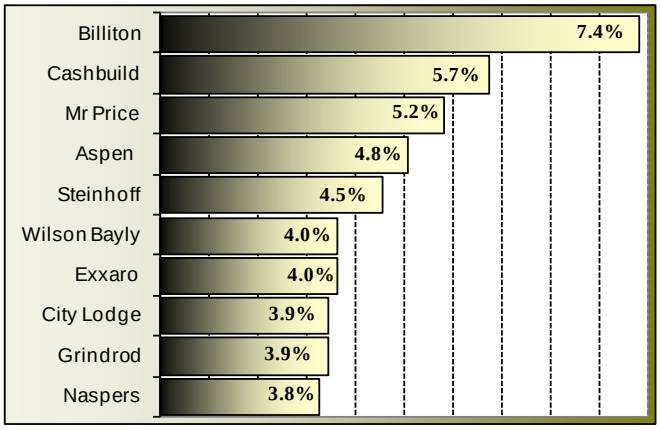
Chart 2: Sector exposure at 31 December 2009



3. The largest equity holdings

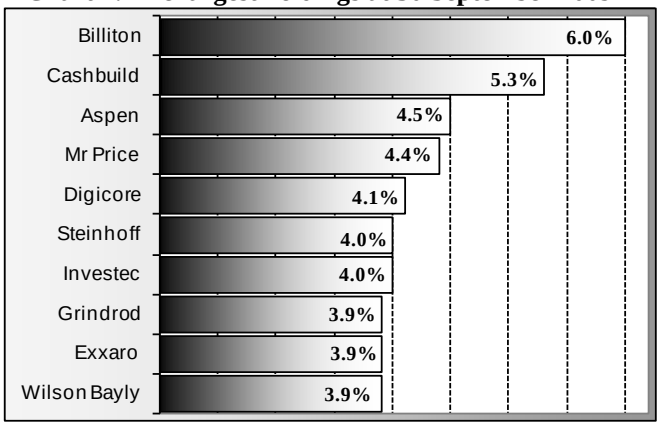
The largest holdings at 31 December are listed in Chart 3, expressed as a percentage of the equity portfolio.

Chart 3: The largest holdings at 31 December 2009



The largest holdings at the end of September are listed in Chart 4. During the quarter City Lodge and Naspers displaced Digicore and Investec in the largest holdings. At the end of December there were 31 counters in the Fund, versus 30 in September, the ten largest of which constituted 47.2% of the Fund, up from 44.0% in September.

Chart 4: The largest holdings at 30 September 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.

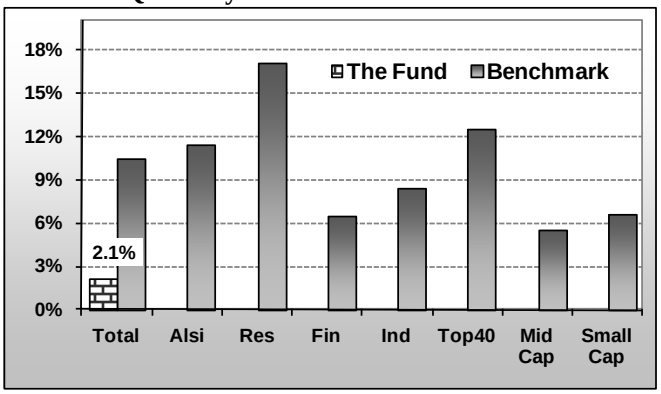
However some of the companies in which the Fund is invested are not typical large-cap companies and may take longer, particularly in the prevailing market conditions, to generate the above-average returns we expect of them over the long-term.

During the quarter Protech Khuthele was introduced into the Fund. We also committed more cash to the market by increasing the existing holdings of Billiton, Capitec, Cashbuild, City Lodge, Implats, Metmar and Mr Price among others.

5. The performance of the Fund

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

Chart 5: Quarterly returns to 31 December 2009



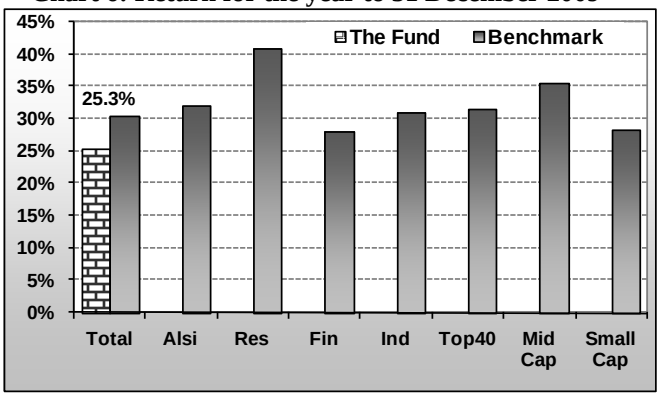
The Fund's equity return of 2.1% was well below the Maestro equity benchmark and All share index returns of 10.5% and 11.5% respectively. Despite the rise of 2.9% in the rand dollar exchange rate, firmer commodity prices and the belief that the global economy was gaining sustainable traction propelled resource shares higher. The basic materials index rose 17.5% during the quarter, way ahead of the returns of the financial (6.5%) and industrial (8.5%) indices. The mid and small cap indices rose 5.6% and 6.6% respectively. The quarterly returns of the Fund's largest holdings were as follows: Billiton rose 16.1% (it rose 16.7% last quarter), Cashbuild -0.9% (18.2%), Mr Price 2.9% (21.1%), Aspen19.0% (13.0%) and Steinhoff 25.9% (23.1%).

The annual returns for the year to end-December are shown in Chart 6. Despite the poor performance during the December quarter ***the return of the total Fund for the year to December was 25.3%. %.*** This can be compared to the Maestro equity benchmark return of 30.7% and the All Share Index's 32.2%. Inflation rose 5.8% during the year while the All bond index declined 1.0%. The basic materials index rose 40.9% - despite a gain of 25.6% in the rand against the dollar - financials rose 28.0% and industrials 31.0%. Not shown in the chart are the respective annual returns of the mid and small cap indices of 35.7% and 28.3%.

The main detractors from the Fund during the year were Digicore, which *declined* 29.6%, Dawn 7.2% and Wilson Bayly 0.02%. Other laggards included Metmar, which

rose "only" 1.9%, Blue Label Telecoms up 5.1%, Sasol 6.4% and MTN 8.7%. Investments that delivered the best returns in the past year include Aspen, up 119.1%, Naspers 76.8%, Steinhoff 65.5%, Merafe Resources 64.7%, Implats 50.4%, Iliad 46.3% Exxaro 45.3%, Cashbuild 44.2% and Mr Price 41.4%. These gains *exclude* dividends received from these companies, so in actual fact their total returns were even greater.

Chart 6: Return for the year to 31 December 2009



At this stage it is worth reflecting on the returns of the past quarter and the year as a whole. Starting with the returns for the quarter, it was quite literally a quarter comprising three very different months in terms of market behavior. Although we covered the latter in some detail in our correspondence, let me remind you where we "fell short" in terms of our relative performance: in October the mid and small cap index lagged the large cap and basic materials indices. Remembering that the Fund's equity portfolio has a relatively light weighting in basic materials (a reflection of our "strong rand" view) we underperformed the market that month. Then in November, despite a 5.3% rise in the rand, which would ordinarily have undermined the basic materials sector, the latter actually rose strongly (6.5%) while *all* other major indices declined on the month. So the Fund under-performed yet again despite the fact that "in theory" we had the appropriate market position. But one or two months are a short time when managing long-term portfolios and, despite our disappointment and frustration we were not about to completely re-position the Fund's equity portfolio. Our stubbornness and belief that the fundamentals would eventually reassert themselves paid off in December, when the Fund performed better than the market and major indices. However, the returns in October and November still left the Fund lagging the All share index and benchmark over the quarter.

In short, our strong rand view proved correct and we kept pace, more or less, with the major indices during the quarter other than the basic material index, where our light weighting, relative to the All share index at least, resulted in us lagging the market.

Please allow me to reflect on the returns for 2009 as a whole; a year, as you would have seen from our monthly comments throughout the year, full of frustration and angst on our part and strange market behaviour and quirks for its part. We admitted at some length in the September quarterly report that we had erred on the side of caution and had not committed sufficient cash to the market. In addition the quality of the equity portfolio was too high – who would have thought that that would be a problem after the worst financial crisis in our lifetime?

The past quarter was again full of examples of how strange the market behaviour has been at times this year. In October and November the dollar weakened sharply. Global investors took that as a supportive factor for US equity markets, given that a large proportion of US corporate earnings are generated outside of the States. The US equity market rose as a result, as did other global equity markets. Then in December the dollar firmed dramatically (4.6%) as investors shifted their view and took a more positive view of the recovery in the US. As a result the US market firmed yet again, taking all other markets with it, including the SA one. Yet despite the firm dollar, which would ordinarily have weakened the rand, the latter firmed 0.9%. This would ordinarily have weakened the basic material sector, but no, it continued to firm although other sectors did rise even more strongly. And so the year went; when "expected" was displaced by the "unusual" and "unexpected". Market correlations i.e. the extent of co-movement between markets broke down, denying investment managers one of the most important tools in their arsenal, namely diversification. There seemed at times during the year to be only one market. If you got it right you did well and if you didn't, you performed badly. There was no room for offsetting (diversifying) one view against another, one sector against another, no differentiation between good and bad companies. And where there was, typically the bad company outperformed the good one. The 2009 equity market will go down as one big "risk trade" – you had to take on lots of risk to have done well – something we are not particularly good at and which neither we nor most of our clients feel comfortable doing.

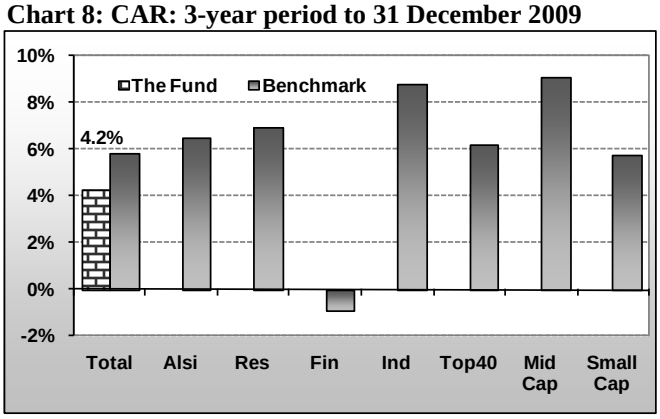
Recall where the year started: the annual return of the All share index at the beginning of 2009 was -23.2%. In March it was -28.5% yet it ended with an annual return of 32.1%. At the beginning of the year global banks were falling over like flies, governments had no real idea how to address the crisis and the world was still reeling from the shock and mayhem caused by the collapse of Lehman Brothers. All eyes were on who would be the next big casualty – Citigroup came within an eighth of a polony skin from being the next "scalp". But the authorities had had enough. They rolled out the safety net on the back of a belief that some financial institutions were simply "too big to fail". At the same time they effectively underwrote

all large financial institutions irrespective of the risk they took onto their balance sheet. This occurred at the same time that interest rates moved to zero or thereabouts, resulting in there being no reason to hold cash and every reason to take on whatever risk one could in order to at least generate some form of return It was, in short, a tumultuous year, despite the large returns from global equity markets.

But before we beat ourselves up too badly, we humbly point out that the equity returns on the Fund are still reasonable. In "normal" years (and we haven't had any of those for at least three years) they would be regarded as reasonable, but internally and according to our own standards we are disappointed with our performance. We are working hard to ensure that we align ourselves even more closely with developments in global markets and that we don't repeat the mistakes of 2009. The results of this process will not, however, mean that we compromise on the level of quality in the Fund. We will also not take any unnecessary additional risks in the Fund as we don't believe it is within our mandate to do so neither is it within your best interests.

Forgive me for dealing at some length on this matter, but it is a reflection of the seriousness with which we take our responsibilities. It reflects the internal deliberations we have had throughout the year in our efforts to best look after your assets and vindicate the trust you placed in us. It is something we don't take for granted.

Chart 8: CAR: 3-year period to 31 December 2009



The compound annual return (CAR) of the Fund over the three-year period to December 2009, shown in Chart 8 ***was 4.2% per annum*** and can be compared to the returns over the same period of the Maestro equity benchmark of 5.9% and the All Share Index's 6.5%.

It is worth considering that this three-year period (2007 – 2009) covers the worst financial crisis in history; it is remarkable that the returns are even positive. A hint of the trauma that has occurred during this period is evident from the returns of the financial index – it declined 0.9% per annum although even this return is reasonable all things considered. You may be interested to know that the CAR returns for the mid and small cap indices over this period are 9.1% and 5.8% respectively and that the rand declined 1.4% per annum. Bonds and cash delivered respective annual returns of 6.5% and 10.5% over the past three years. By way of comparison, the MSCI World index *declined* 7.7% per annum over the past three years, the Barcap US Aggregate bond index rose 6.9% and cash 2.1%.

6. Closing remarks

I refer you again to the forthcoming *Market Commentary – December 2009* for details of our view on the global investment environment. I encourage you to review the section that covers the returns over the past decade - they are most informative and provide a lot of insight into the environment that we have had to engage and endure in the management of the Fund.

We suspect that investment markets will continue to be difficult to navigate successfully in the year ahead and we also believe it would be premature and naïve to think there is little risk in the prevailing environment. History has taught us that just when investors get complacent, the proverbial budgie heads straight for the fan. So we plan to continue being vigilant and careful in the management of the Fund. There are a couple of issues that continue to trouble us deeply about the behaviour of global investment markets during the past two years, such as the lack of diversification opportunities and the "one market risk trade" we referred to earlier in this report. Apart from traditional investment avenues we are working hard to research and investigate other opportunities, even though they may be less conventional. If and when we are able to successfully bring these to commercial fruition, we look forward to sharing them with you.

May I thank you again, on behalf of the whole Maestro team, for your ongoing support and business? At this stage – and long may it last – we still know each investor into the Fund and each one of you remain an important member of the Maestro family; we look forward to serving you through 2010! It is an historic year for South Africa and its citizens, representing as it does the culmination of millions of citizens' financial and manual efforts and comes at a time that emerging markets, including South Africa, are more fully appreciated than ever before. Of course there will be disappointments along the way and the usual hiccups, but in general we are cautiously optimistic that it will generate reasonable investment opportunities and returns once again, although they are unlikely to be as substantial as those of the year just passed.

Andre Joubert
20 January 2010