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 2.11%.

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

FUND SIZE: R 66 127 981

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
8000Fax:
021 674 3209
Email: equityfund@maestroinvestment.co.za

The Maestro Equity Fund

Quarterly report for the period ended

31 December 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 December quarter and for 2010 as a whole.

2. The investment position of the Fund

The Fund's sector allocation is shown in Chart 1. Exposure to the resource sector totalled 26.5% of the Fund, down from 28.8% in September. Financial exposure decreased 2.4% to 10.9% and industrial exposure increased 2.8% to 46.8%. Cash represented 6.4% of the Fund, unchanged from the end of September and preference share exposure declined 0.5% to 6.4% during the quarter.

Chart 1: Asset allocation at 31 December 2010

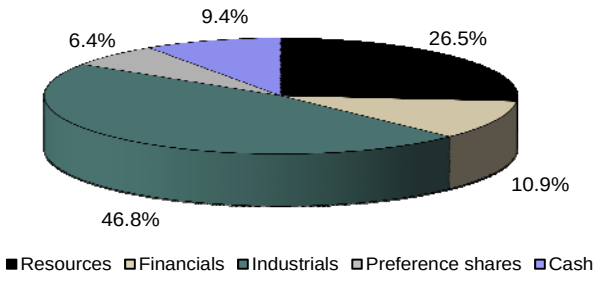
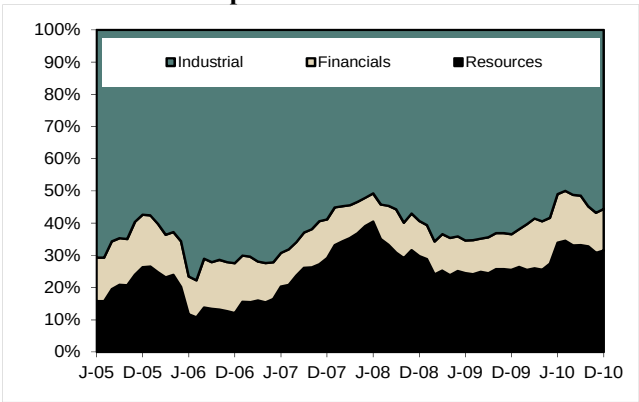


Chart 2 depicts the historical allocation to the three major sectors of the equity market, expressed as a percentage of the equity portion of the Fund.

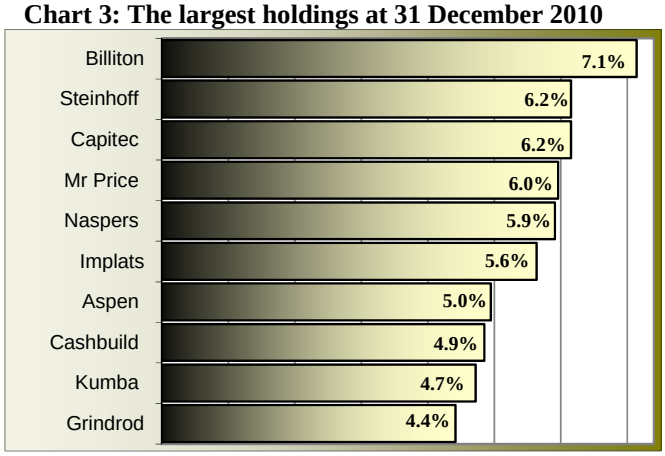
Chart 2: Sector exposure at 31 December 2010



3. The largest equity holdings

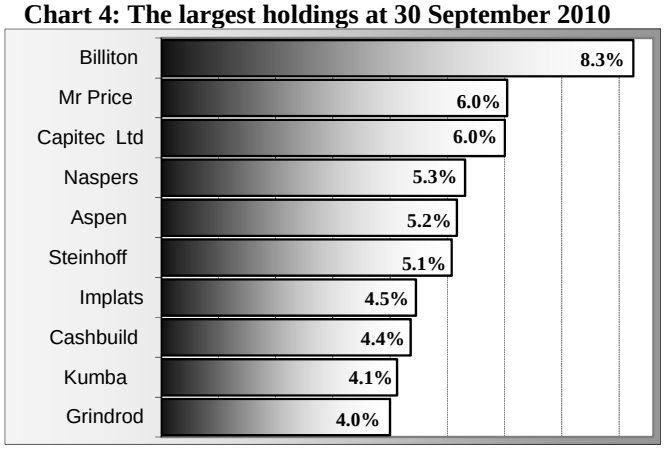
The largest holdings at 31 December are listed in Chart 3, expressed as a percentage of the equity portfolio.

Chart 3: The largest holdings at 31 December 2010



The largest holdings at the end of September are listed in Chart 4. Other than the relative rankings, there were no changes to the top ten largest holdings during the quarter. At the end of December there were 25 counters in the Fund, versus 27 in December, the ten largest constituted 55.9% of the Fund, up from 52.8% in September.

Chart 4: The largest holdings at 30 September 2010



4. Recent activity on the Fund

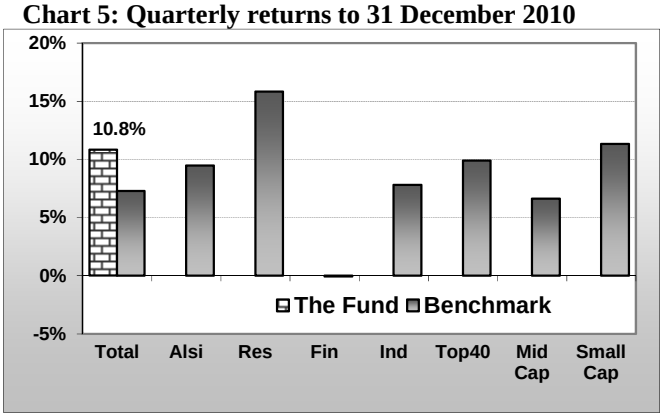
The investment objective on this Fund is to *achieve long-term growth through the assumption of moderate risk.* We would emphasise the "long-term" aspect of this objective; we are confident that the companies in which the Fund is invested will deliver long-term capital growth together with a steady increase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

During the quarter the entire holdings in Arcelor Mittal Standard Bank was sold out of the fund. Holdings in Mr Price, BHP Billiton and Anglos were reduced and holdings in B&W and Protech were increased during the quarter.

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 December quarter was 10.8%***. Appendix A summarizes the major developments during the quarter for your convenience. When evaluating the returns, remember that the September quarter returns were also large in absolute terms, so the December returns are being measured off quite a high base.

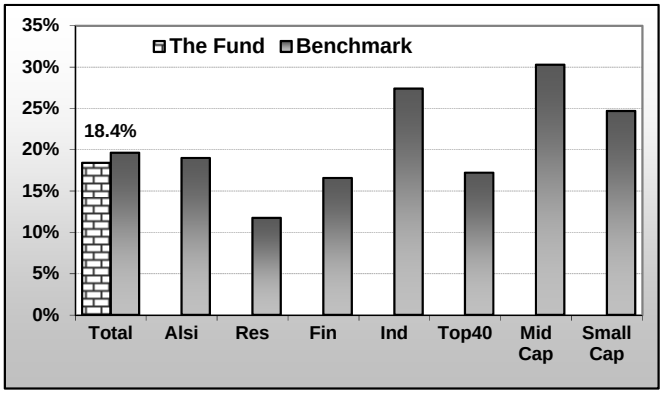
Chart 5: Quarterly returns to 31 December 2010



The Fund's return of 10.8% can be compared to the Maestro equity benchmark and All share index returns of 7.3% and 9.5% respectively. The quarter was characterised by two strong months (October and December) and a marginally weak one (November). The Fund did particularly well, relative to the market, during October, which enabled it to post a quarterly return well in excess of the market. As you can see from the chart, the quarter was all about resource shares as global investors became more positive due to the Fed's commitment to pump another $600bn into the global economy. Financials fared poorly; the difference between the returns of the two indices was no less than 15.9% - large by any standard. The mid and small cap indices rose 6.6% and 11.3% respectively.

The quarterly returns of the Fund's largest holdings were as follows: Billiton rose 17.9% (it rose 12.1% last quarter), Steinhoff 19.3% (15.3%), Capitec 15.2% (26.8%), Mr Price 20.9% (22.9%), Naspers 13.8% (31.1%), Implats 29.4% (0.0%), Aspen -2.1% (23.5%), Cashbuild 21.8% (4.0%), Kumba Iron Ore 17.0% (13.8%) and Grindrod 12.8% (7.2). I find it very interesting that the five largest holdings include only one mining company (indeed the top ten include only three) and yet the Fund produced an excellent, above-market return; remember, basic material shares drove most of the market's returns during the quarter. I would humbly suggest this is an indication of the quality of the underlying portfolio, one which has proven its worth by generating above-average returns without enduring as much volatility as the rest of the market has.

Chart 6: Annual returns to 31 December 2010



The annual returns to end-December are shown in Chart 6. ***The return of the total Fund for 2010 was 18.4%.*** Inflation rose 3.6% during the year and the All bond index rose 15.0%. The rand rose 11.3% against the dollar during the year. The Maestro equity benchmark returned 19.6% and the All Share Index's 19.0%. The basic materials index rose "only"11.8% despite its 15.8% rise during the December quarter. The financial and industrial indices rose 16.6% and 27.4%. Not shown in the chart are the respective annual returns of the mid and small cap indices of 30.3% and 24.7% respectively. The main detractors from the Fund during the year to December were Arcelor Mittal, which fell 23.1%, Altech 11.7% and Digicore 3.2%. Investments that delivered the best returns in the past year included Capitec, which rose 117.6%, Mr Price 90.0%, Kumba 39.2%, Blue Label Telecoms 36.7%, Exxaro 30.3% and Abil 30.0%.

Let me turn your attention to the returns during the past three years. As I do so, remember *the base off which these returns are measured is December 2007 i.e. just after the peak of the market 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. For that reason the compound annual returns (CAR) over the 3-year period are a lot lower in absolute terms than over any other period in this report.
The compound annual return (CAR) of the Fund over the three-year period to December 2010, shown in Chart 7, ***was 3.0%*** and can be compared to the returns over the same period of the Maestro equity benchmark of 7.3% and the All Share Index's 6.5%. The returns of the mid and small cap index were 12.9% and 3.2% respectively while the respective CAR for the All Bond index and cash over this period were 10.2% and 9.5%. The rand appreciated by 1.1% against the dollar per annum over the past three years.

Chart 7: CAR: 3-year period to 31 December 2010

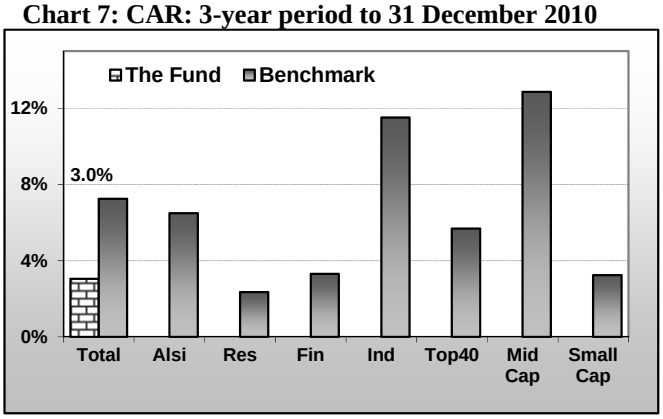
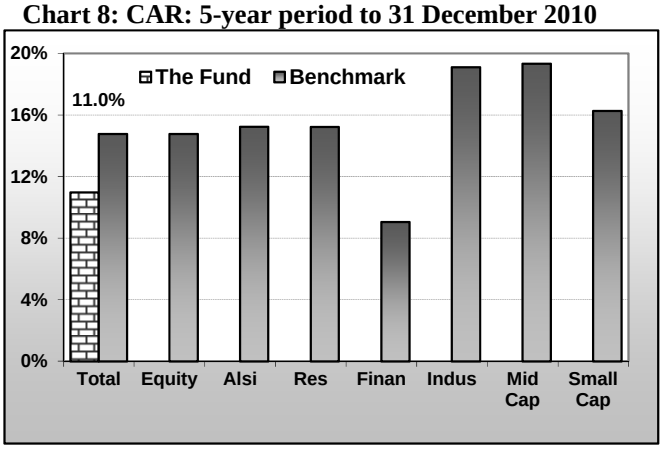


Chart 8 depicts the Fund's CAR for the five-year period to 31 December 2010. ***The CAR of the Fund over the five-year period to December was 11.0% per annum***, compared to the Maestro equity benchmark and All share index returns of 14.8% and 15.2% respectively. The industrial index has been consistent throughout this period as the least volatile and most profitable area of the market – its CAR over the five-year period was 19.1% - which explains why we retain a large portion of the Fund in that sector.

Chart 8: CAR: 5-year period to 31 December 2010

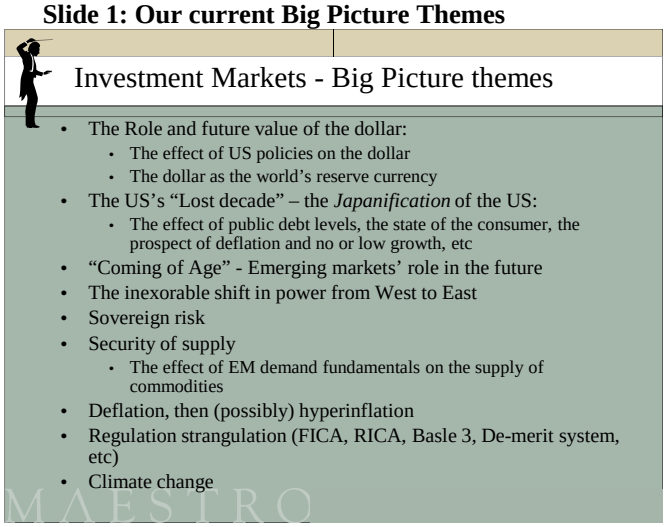


The returns of the mid and small cap index over this period were 19.3% and 16.3% respectively, both higher than the All share index, while the respective CAR for the All Bond index and cash were 7.9% and 9.2%. Despite all the trauma during this period the rand has, remarkably, declined only 0.9% per annum over the past five years. The SA equity market remained one of the most profitable areas in which to invest. By way of comparison, the MSCI World index rose only 0.4% per annum over the past five years although the MSCI Emerging market index rose 10.3% per annum over the same period - whoever said "de-coupling" hasn't occurred? The Barcap US aggregate bond index rose 6.9% and cash 2.3%. When you consider how low these returns are, you realise that the SA equity market has been a very profitable compared to global markets.

6. Closing remarks

2010 was a profitable year for equity markets, particularly our local one, even though the year was not without its fair share of uncertainty and risk. That said, it is naïve to think that the problems associated with the Great Financial Crisis are fully behind us. In the office this year so far we are already talking about "an interesting year ahead of us" – and we are not just referring to interesting market behaviour. There are still many, very powerful and significant risks that could very easily destabilize the markets and bring the tepid global economy recover to its knees. We hope that it will not come to that, but don't be fooled into a false sense of security on the back of another year of positive returns from the SA (and global) equity markets.

Slide 1: Our current Big Picture Themes



As the year progresses we will elucidate some of the more significant risks we see weighing on global investment markets both now and into the future. They are not that different from the risks we highlighted in the *Market Commentary* published last quarter, and which continue to feature prominently on our list of **Big Picture Themes** which I have listed again in Slide 1, for your convenience.

South Africa has emerged relatively well from the Great Financial Crisis and is also well-placed to take up its position in the global environment we envisage will take shape in the future. In addition, the returns from the equity market over the long-term are more than sufficient incentive to keep working hard to find profitable opportunities in which to invest. That is what we will be keeping ourselves busy with in the coming months – and we look forward to sharing the journey with you.

Andre Joubert
On behalf of the Maestro team
11 January 2011

Appendix A

A summary of market behaviour – December 2010

As you are aware we comment extensively on market movements from month to month in *Intermezzo* and the letters that accompany your statements. We will thus provide only a summary here of the salient features of investment markets during the December quarter. The returns of selected equity markets are shown in Table 1 and of bonds, commodities and currencies in Table 2.

Table 1: 2010 returns - equities

	2009 (%)	Sept quarter (%)	Dec quarter (%)	2010 (%)
Japan	12.9	-0.1	9.2	2.9
Hong Kong	52.2	11.1	3.0	5.3
Germany	23.9	4.4	11.0	16.1
UK	22.1	12.9	6.3	9.0
US (S&P500/ large cap)	27.1	10.7	10.9	15.5
S&P Mid cap index	35.0	12.7	13.1	24.9
S&P Small cap index	23.8	9.3	16.0	25.0
MSCI World index	***27.0***	***13.2***	***8.6***	***9.6***
Brazil	82.7	13.9	-0.2	1.0
Russia	128.6	12.6	17.4	22.5
India	81.0	13.4	2.2	17.4
China	80.0	10.7	5.7	-14.3
MSCI Emerging market	***74.5***	***17.2***	***7.1***	***16.4***
JSE All share	***32.2***	***13.3***	***9.5***	***19.0***
JSE All share ($)	***65.9***	***24.5***	***15.4***	***32.4***
Basic materials	40.9	7.0	15.8	11.7
Financial	28.0	15.1	-0.1	16.6
Industrial	31.0	18.5	7.8	27.4
Large cap (Top40)	31.8	13.4	9.9	17.2
Mid cap index	35.7	13.2	6.6	30.3
Small cap index	28.3	10.1	11.3	24.7

By all accounts the December was a very profitable quarter and lifted what had been a very unrewarding year so far into one which produced respectable returns across most equity markets and asset classes. The catalyst to the market movements was the announcement by the Federal Reserved that it was to commence a second round of purchases of US bonds – so-called quantitative easing, or QE2. The Fed's action was supposed to lower US bonds yields but instead US yields rose sharply (prices declined in similar fashion) and the dollar weakened against most emerging market currencies. And equity markets and commodity prices in particular rose sharply – refer to Table 2 to see how dramatically some commodity price rises were during the quarter. What is not shown in the Table are examples of agricultural commodity prices, which rose on the back of the weak dollar and weather-related fears that supply would be insufficient.

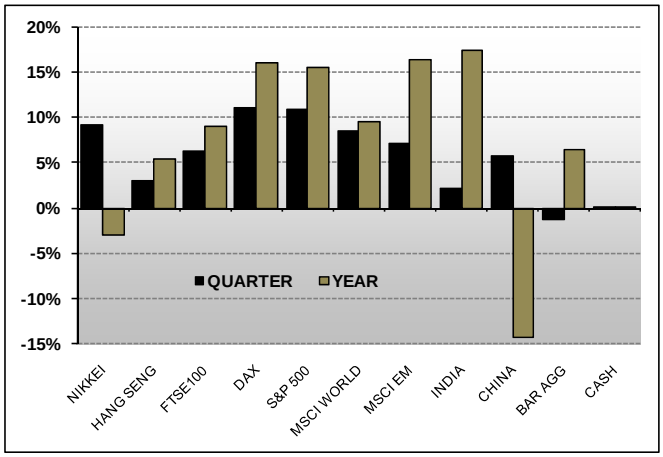
Table 2: 2010 returns – bonds, commodities, currencies

	2009 (%)	Sept quarter (%)	Dec quarter (%)	2010 (%)
SA All Bond index	-1.0	8.1	0.6	14.8
SA Cash	8.9	1.7	1.5	6.9
Barcap US Agg. Bond index	6.1	2.5	-1.3	7.8
Barcap Global Agg. Bond index	N/A	7.3	-1.3	5.5
Emerging market bonds	27.2	8.7	-2.0	12.5
US 10-year bond	-9.7	4.5	-5.6	7.9
US Corporate bonds	19.8	4.9	-1.6	9.5
US high yield bonds	57.5	6.7	3.1	15.2
Cash (US dollar)	0.1	0.0	0.0	0.1
DJ CS Hedge index	18.6	4.9		
Brent (Oil)	94.1	9.7	15.1	21.6
Gold	27.6	5.1	7.9	27.7
Silver	57.5	17.8	38.8	80.3
Platinum	62.7	8.5	5.6	20.1
Palladium	114.1	28.5	39.1	102.8
Copper	151.3	23.1	20.0	31.0
Nickel	70.00	20.4	7.1	34.5
Baltic Dry index	288.2	6.5	-30.8	-41.0
CRB Com index	23.5	11.0	12.5	13.9
S&P GS Commodity index	61.6	8.9	14.4	18.4
Euro dollar	3.2	11.5	-1.7	-6.5
Sterling dollar	12.3	5.3	-0.6	-3.1
Rand dollar	25.6	9.9	5.4	11.3

Global investment markets

Chart 1 depicts the quarterly and annual movements of selected equity markets. Ironically, China, whose economy has largely kept the global economy afloat, is the only market to have suffered a major decline in 2010.

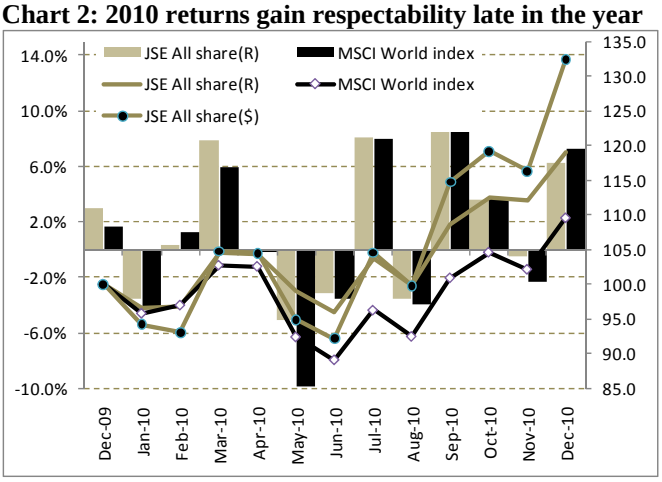
Chart 1: Global returns to 31 December 2010



I referred earlier to the fact that the December quarter, together with the returns registered in September, turned

an anaemic year-to-date return into a very profitable one. Last quarter we included a chart which depicted as much; we have updated it below in Chart 2.

Chart 2: 2010 returns gain respectability late in the year

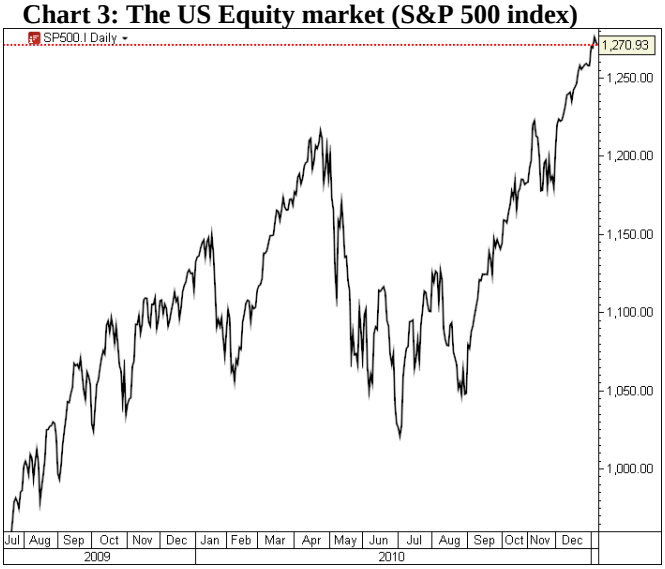


What is immediately apparent from the chart is just how volatile the monthly returns were. For example, the five most positive months provided a combined return of 38.8% for the MSCI world index and 39.4% for the All share index. In contrast the remaining seven months produced a combined return of -21.1% and -14.7% respectively – thank heavens for the five profitable months!

Another aspect that is evident from the chart is that the SA equity returns more or less tracked those of developed markets, with the exception of March, May and November. It is interesting to see from Table 1 that developed markets (8.6%) outperformed developing markets (7.1%) during the December quarter. This reflects a view, which arose after the QE2 announcement, that developed markets had been too severely punished and that the prospects for the global economy were better off post-QE2; whether or not this view proves correct remains to be seen. But it is worth highlighting that there was far less of a disparity between developed and developing markets (7.3% versus 16.5%) in 2010 than there was in 2009 (27.0% versus 74.5%).

The positive sentiment that built momentum during the final months of 2010 can be seen from the passage of the US equity market, shown in Chart 3. It is hard to argue against the market developing a "Bernanke put" mentality, just as it did when previous Fed Chairman Alan Greenspan was around. You will recall that nearly every time equity markets hit the skids, Greenspan cut interest rates, which in turn supported and then boosted the US equity market. Much the same seems to be happening under the Bernanke chairmanship although in his defence the economic circumstances are somewhat different. However, even if QE1 and QE2 have been a failure from a bond market point of view - rates have not fallen according to the QE plan – the equity market has certainly fallen in love with Bernanke and his approach.

Chart 3: The US Equity market (S&P 500 index)



Source: Saxo Bank

Turning to the US dollar and the currency markets in general, more than one drama has been occurring simultaneously. While the US has been trying to deal with its own crisis – rather unsuccessfully in our opinion – the Eurozone has had more than its fair share of problems; sovereign ones, to be exact. The Irish bailout drama was well covered during the quarter, and its effect on the euro dollar rate can be seen clearly from Chart 4.

Chart 4: The euro dollar exchange rate

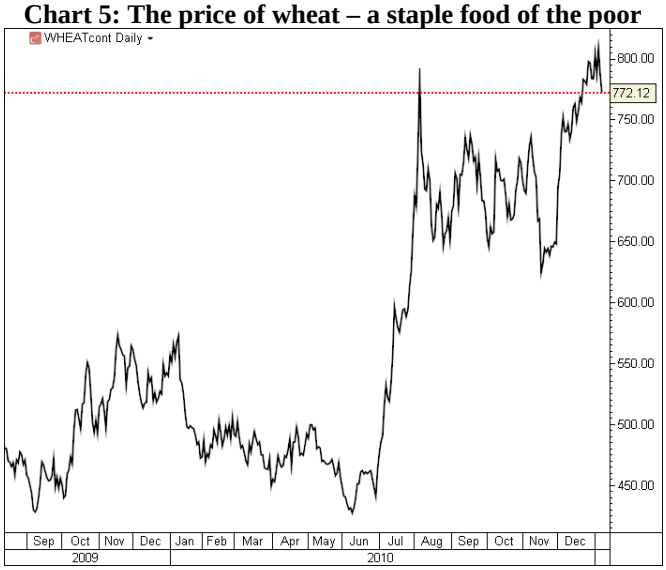
Source: Saxo Bank

The dramatic fall in the dollar (rise in the euro) between mid-September and end-October reflected investor concerns that QE2 would undermine the dollar and ignite inflation at some point in the future. Fortunately for the dollar though, concerns about weak Eurozone members in general and Ireland in particular undermined the euro,

which declined sharply in November and December, leaving it 6.5% lower than where is started the year. The issue of sovereign debt is going to remain a very large risk factor in global markets in 2011. The "battle for supremacy" will take place this year in the currency markets – we already see Brazil openly referring to the "currency war". As yet there is no indication of what currency, if any, can replace the dollar as the world's reserve currency. This is probably a good thing because if there was an obvious successor to the dollar in this regard, the dollar would likely be much lower.

The dollar was also a factor in steep commodity price rises during the quarter, although weather-related supply fears were an added factor in the case of agricultural commodities. The steep gains in these prices have already pushed food prices up in many developing countries and have sparked consumer backlashes reminiscent of those experienced in 2008.

Chart 5: The price of wheat – a staple food of the poor



Source: Saxo Bank

What is perhaps most concerning is that there is no immediate solution to escalating food prices. Supply constraints and freak weather patterns are very real issues for many of these markets, and neither the producers nor authorities are able to affect them in the short term. The presence of opportunistic speculators in some cases only makes matters worse as do the demographic changes in emerging markets that are slowly aggravating the situation.

Chart 6: The price of corn

Source: Saxo Bank

But it would be wrong to think that it is only food (so-called soft) commodity prices that are rising. Chart 7 and 8 depict the recent history of the silver and palladium prices, which rose 38.8% and 39.1% in the December quarter and 80.3% and 102.8% for 2010 as a whole. Admittedly I have chosen the two commodities that have risen the most in 2010 but Table 2 shows that most other commodity prices rose as well. The S&P Goldman Sachs and CRB Commodity indices rose 14.4% and 12.5% during the quarter and 18.4% and 13.9% during 2010 respectively. There is absolutely no doubt that these price increases will eventually find their way into prices at the retail level.

Chart 7: The silver price – makes gold look boring

Source: Saxo Bank

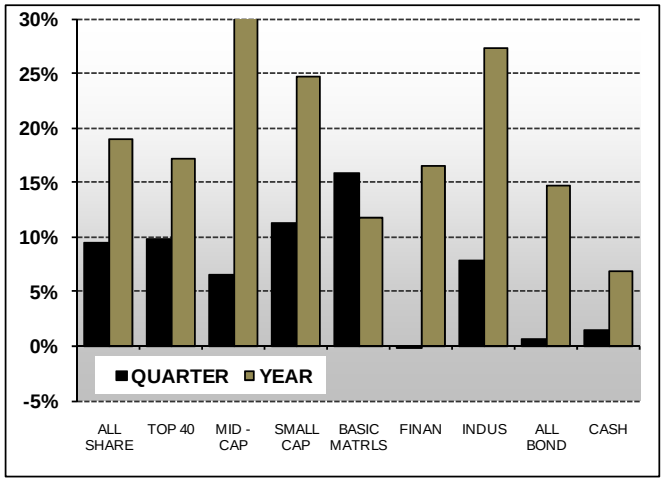
Chart 8: The palladium price

Source: Saxo Bank

Local investment markets

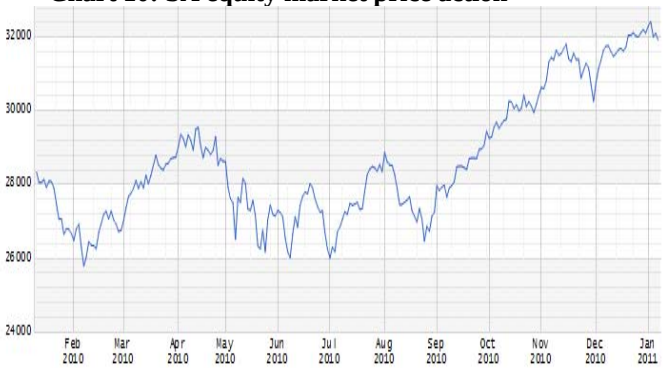
Turning to the South African investment markets, Chart 9 depicts the quarterly and annual gains in the major indices for 2010.

Chart 9: Local returns to 31 December 2010



Despite the rand, which firmed 5.4% against the (firm) dollar during the quarter, the basic material index posted the largest (15.8%) return during the quarter. In stark contrast, the financial index declined, albeit only marginally. As usual, Mr Consistently Stable, the industrial index, gained 7.8% on the quarter, but posted the largest annual return of the three major indices. During the final quarter of 2010 we published our *Market Commentary*, which included a section espousing the reasons why we bias our equity portfolios in favour of industrial shares. I would encourage you to read it again; added to all the reasons we put forward in that document, we were able yet again to put another year behind us during which industrial shares posted the best gains during the year and delivered a consistent stream on income. In addition, the industrial index also displayed the least volatility of all three major indices during 2010. Better returns, for less risk – what could be more appealing?

Chart 10: SA equity market price action



Source: Investec Securities

In the same *Market Commentary* – copies of which you can obtain from us at any stage if you have perhaps misplaced yours – we also provided what we believe is compelling evidence to support our affinity for carefully chosen mid and small cap shares (*not* Alt-x shares). You would therefore appreciate that at the end of a calendar year, our team gets quite excited to see if our biases with regard to market capitalization (cap) was vindicated. I am happy to report that in 2010 they didn't let us down. Just to reiterate the point, Table 3 shows the returns for the past quarter and year, together with the US experience. We monitor the latter quite closely, as there is a close correlation between the movements across market caps, across different markets. In addition, it provides us with some comfort knowing that the "mid and small cap phenomenon is not only a South African one.

Table 3: SA and US returns across market cap

	2009 (%)	Dec quarter (%)	2010 (%)	10-yr CAGR* (%)
SA All share index	***32.2***	***9.5***	***19.0***	***17.8***
Large cap (Top40)	31.8	9.9	17.2	16.8
Mid cap index	35.7	6.6	30.3	24.5
Small cap index	28.3	11.3	24.7	26.0
S&P500	***27.1***	***10.9***	***15.5***	***-0.5***
S&P Large cap	27.1	10.9	15.5	-0.5
S&P Mid cap index	35.0	13.1	24.9	5.8
S&P Small cap index	23.8	16.0	25.0	6.6

*Compound Annual Growth Rate to December 2010

Our final chart is that of the rand, which continues to frustrate and confuse many investors. As you are surely by now aware though, Maestro has for nearly two years now maintained the view that the rand is likely to remain strong. Our view was and remains based on our view of

what is happening beyond the borders of this country, rather than an assessment of the immediate or even medium-term future of South Africa. SA is not alone in this regard; many other developing (and some developed) countries, of which Brazil has been the most vocal, but including Australia, Chile, China, Columbia, Mexico, Indonesia, Japan, Peru, South Korea, Switzerland, Taiwan and Thailand have been struggling with appreciating currencies. Having got our currency view right for some time, there is no room to gloat; the hardest part will be to assess when the appropriate time has come to begin anticipating a weaker rand. At this point in time, though, we sense that that moment is still some time away.

Chart 11: The rand dollar exchange rate

Testing record levels – but when will the turning point arrive?

Source: Saxo Bank

That concludes the summary of market developments during the final quarter of 2010. I again draw your attention to the *Market Commentary* we published last quarter. It contains valuable insights into the prevailing investment climate and more importantly sheds light on our thinking and 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 relevant for all serious long-term investors. 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.

Last quarter we ended this section with the following; "Here's 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". Now that you have heard and experienced "the news" you will agree that we have put another year of strong equity market returns behind us. That in itself is very gratifying. However, we have been around long enough to know that there is never room for complacency and so we remain as vigilant as possible. We can easily compile a list of ten good reasons for extreme caution, but can simultaneously compile a list of nine reasons to be positive. Now, more than ever, some really hard political decisions need to be taken by world leaders and the custodians of fiscal and monetary policy. History has taught us that the latter are not good at taking these decisions, and we therefore expect mistakes to be made which will sow volatility and more uncertainty into the markets. We will work hard to "navigate the waters" but are mindful that after a period of excellent returns, such as those we now put behind us, it is that much harder to replicate them in the short term.

Thank you as always for your support. We remain at your disposal at any stage, should you wish to contact us to discuss our views in more detail.

The Maestro Investment Team
11 January 2011