MAESTRO
Growth Fund

PRESCIENT
LIFE LIMITED

INVESTMENT OBJECTIVE
The Fund's objective is to produce above-average long-term returns whilst simultaneously assuming less risk than inherent in the market itself. The Fund is balanced across multiple asset classes and is subject to the restrictions of Regulation 28 of the Pensions Funds Act. A conservative investment philosophy is adopted however this still may lead to volatility of returns in the short term (i.e. 12 to 18 months).

FUND BENCHMARK (BMK)
The Fund measures itself against a benchmark consisting of 60% All share Index, 20% All bond Index (ALBI), 10% Short term fixed income (STEFI) index and a 10% global benchmark.

LEGAL STRUCTURE
The Fund is a pooled portfolio on the Prescient Life Limited balance sheet. The appointed portfolio manager of the Fund is Maestro Investment Management (Pty) Limited, an approved Financial Services Provider in terms of the Financial Advisory and Intermediary Services Act, operating under licence number 739. Prescient Life Limited is a linked insurer governed by the Long Term Insurance Act. Prescient Life Limited issues investment linked policies. This Fund operates as a white label under the Prescient Life Licence.

FEE STRUCTURE
The annual investment management fee is 1.5%. The fee is inclusive of all underlying managers' fees, platform and administrative fees. In the case where the Fund is accessed and used as a Preservation Fund or Retirement Annuity an additional fee of 0.2% per annum is charged by Prescient.

FUND SIZE: R 65 444 224

LONG TERM INSURER
Prescient Life Limited
(Reg no: 2004/014436/06)

AUDITOR
KPMG Inc.

PORTFOLIO MANAGER
Maestro Investment Management (Pty) Ltd
(Reg no: 2000/028796/07)

ENQUIRIES
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8000
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The Maestro Growth Fund

Quarterly report for the period ended

31 March 2013

1. Introduction

This Report focuses on the investment activities of the Maestro Growth Fund during the recent past although it should be read in conjunction with previous editions of *Intermezzo*, wherein we documented some of the salient events in recent months.

2. The investment position of the Fund

The Fund's asset allocation is shown in Chart 1. Exposure to the equity market totalled 65.4% of the Fund, slightly down from 65.7% in December. Bond exposure increased to 15% while offshore exposure increased 1.8% to end the quarter at 16.9% of the Fund. Cash represented 2.8% of the Fund significantly down from 11.9% at the end of December quarter.

Chart 1: Asset allocation at 31 March 2013

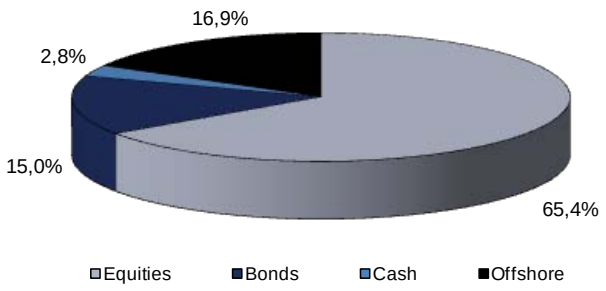
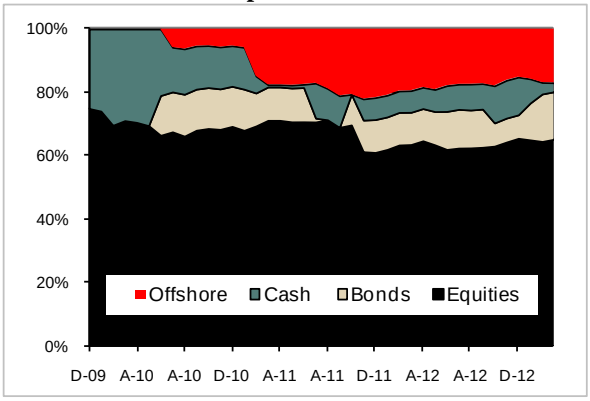


Chart 2 depicts the historical allocation to the major asset classes, expressed as a percentage of the total Fund.

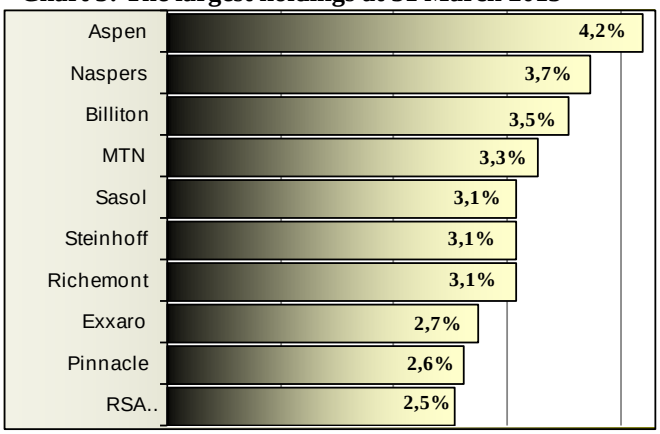
Chart 2: Sector exposure at 31 March 2013



3. Largest Holdings

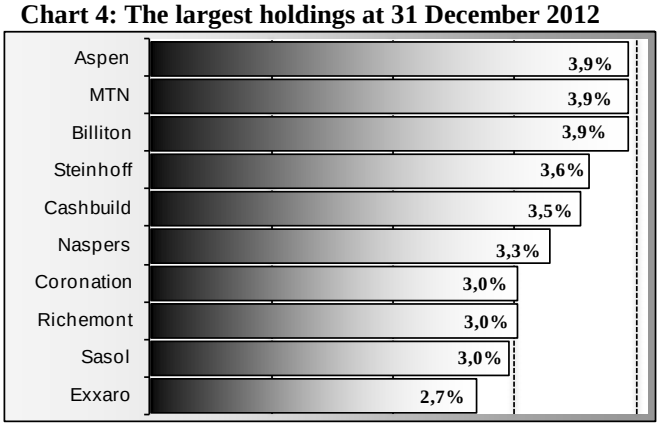
The largest holdings at 31 March are listed in Chart 3 expressed as a percentage of the Fund's equity portfolio.

Chart 3: The largest holdings at 31 March 2013



The largest holdings at the end of December 2012 are listed in Chart 4. During the quarter, Pinnacle Technologies and RSA 10.5% R186 bond replaced Cashbuild and Coronation in the top 10 holdings of the Fund. At the end of March there were 33 counters in the equity component of the Fund, five more than at the end of December. The ten largest holdings constituted 31.8% of the Fund down from 33.9% in December.

Chart 4: The largest holdings at 31 December 2012



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.

The Fund has been designed in accordance with the rules and regulations that govern Regulation 28 of the Pensions Fund Act. It is not open to the retail public and can only be accessed through a company's Provident/Pension Fund or by individuals who have preservation money or wish to either transfer or purchase a Retirement Annuity (RA). These RA's can then be converted into living annuities when the time arises.

The salient features of the first quarter are discussed throughout the document. Before we focus on the returns of the Maestro Growth Fund it is appropriate to isolate from an asset allocation point of view what took place.

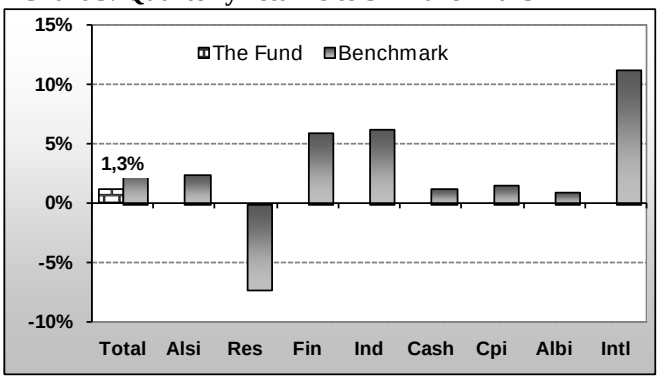
We are still of the opinion that domestic equities are the asset class of choice over the medium to long term. The Growth Fund's exposure to equities decreased slightly by 0.3% and its offshore exposure increased by 1.8% during the first quarter of 2013. While the Fund's holding in fixed income; namely cash and bonds decreased by 9.1% and increased by 7.8% respectively.

A disproportionate amount of commentary is given to how the equity and offshore components of the Fund performed. The primary reason this is the case is due to the large allocation to these sectors within the Growth Fund. Asset allocation accounts for as much as 90% of an investments return which highlights the importance of these sectors.

5. 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 January quarter was 1.3%*** which can be compared to the Maestro Growth Fund benchmark of 2.9%.

Chart 5: Quarterly returns to 31 March 2013



The international component produced a rand return of 5.5% but declined 2.4% in dollar terms. The rand declined 7.5% during the quarter. ***The Fund's quarterly equity return of 0.3%*** can be compared to the All share index returns of 2.5%. We commented extensively in recent letters and *Intermezzo* about the state of the markets during the past few months and refer you to those publications to refresh your memory about the salient features of this period; you can find back copies of *Intermezzo* by clicking here.

It is clear from the chart that the over-riding feature of the SA equity market during the March quarter was the weakness in the basic material (resource) sector. It declined 7.3% despite the fact that the rand, which in the past has supported the sector, declined 7.5%. The weakness in resource shares is in stark contrast to the relative strength in financial and industrial shares, which rose 5.9% and 6.3% respectively in the March quarter.

A couple of comments are appropriate: firstly, remember that the December quarter was a particularly strong one, with gains in the basic material, financial and industrial indices of 8.7%, 9.9% and 12.4% respectively. That specific quarter was about the only one in which resource shares showed any strength – the sector ended 2012 with a return of only 5.4% – whereas the financial and industrial sectors displayed remarkable strength throughout the year, ending with respective annual returns of 38.1% and 40.8% - quite extraordinary. So to see the two latter sectors continue to display strength during the March quarter is significant, given that the base was so high. It also places the ongoing weakness in resource shares into perspective and vindicates the view we have had for many years that local equity portfolios should have a strong bias towards financial and industrial shares. The weakness in basic materials is symptomatic of the deep-seated problems that the sector faces, none of which will be easily or quickly resolved. Given the significant risks to global economic growth, particularly as the Chinese economy slows down from the heady growth rates in the past decade, we continue to believe that investing only a small portion of one's portfolio in this sector is appropriate. This explains the Fund's relatively small weighting in resource shares, at least in comparison to the All share index, which has a 31.7% weighting towards that sector.

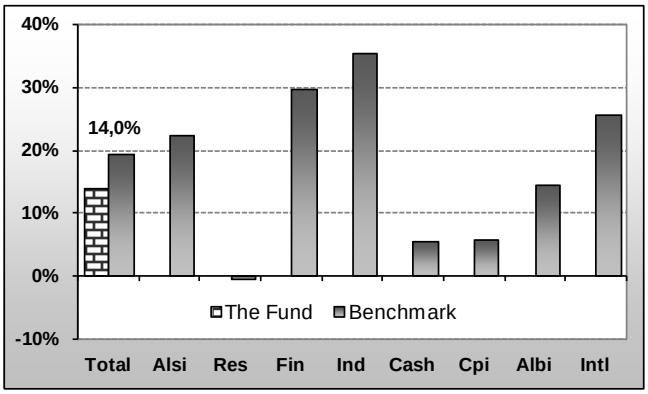
The less said about SA gold shares the better. As you are aware we do not like gold shares and have not invested in them for many years. If this view sounds controversial, I would point out that the gold index declined 17.9% during the March quarter and 21.3% in the year to March (at the time of writing it has fallen another 15.4% so far in April). Consider the following: The compound **annual** returns on the All Gold index for the 1, 3, 5, 7 and 10 years to the end of December 2012 were -18.5%, -0.7%, 0.8%, -0.4% and -1.2% respectively. That means if you had invested R1m in the All gold index ten years ago, it would have been worth only R886 277 at the end of December. To put that in perspective, if you had invested R1m in the All share index over the same period it would be worth R5.6m and had you invested into the Industrial index it would be worth an astonishing R9.1m. As a matter of interest, had you given the Maestro R1m to look after, it would have grown to R7.5m over the same period. That puts the returns from gold shares over the past decade into perspective. However, as South African citizens and investors into this economy we are *very* concerned about events in the SA gold mining industry due to the extent to which so many other industries rely on the gold and other mining sectors for their future. The mining sector, and gold mining in particular, is in a crisis and we should all be very concerned about its future, particularly seeing that government seems clueless about how to address the problems or propose a workable solution for the industry going forward. The stakeholders within the industry itself also seem to have little idea of how to sort out the mess.

What is not evident from Chart 5 is the performance across the size of companies. Small cap companies comfortably outperformed large and mid-cap companies; the former rose 8.1% in the March quarter, following its 8.0% rise during the December quarter, while the large and mid-cap indices rose 2.3% and 2.7% respectively during the March quarter.

The returns excluding dividends of the largest holdings in the Fund during the quarter were as follows:
Aspen rose 13.0% (it rose 18.2% in the December quarter), Naspers fell 1.7% (5.5%), Billiton fell 4.7% (13.6%) and MTN fell 9.1% (10.9%). Sasol rose 12.3% (-2.6%) but Steinhoff fell 8.8% (5.2%). Richemont rose 0.7% (32.8%) but Exxaro fell 5.5%(5.0%). Pinnacle rose 19.8% (2.3%) - as you can see the largest holdings really did produce a mixed bag of returns this quarter. City Lodge posted a strong quarterly return during the quarter, rising 11.1%, while the laggards included B&W which declined 37.9%, Kumba fell 13.5%, Abil 5.9% and Exxaro 3.4%.

Chart 6 depicts the annual returns to March. ***The un-annualised return on the total Fund for the year to March was 14.0%***. The Fund's benchmark returned 19.5% for the period under review.

Chart 6: Annual returns to 31 March 2013



Inflation rose 5.9% over the year and the All bond index rose 14.4%. ***The Fund's international component***

produced a rand return of 18.4%. The rand declined 7.5% against the dollar during the year.

The Fund's annual return to March on its equity component was 14.5% versus the All share index returns of 22.5%. The dramatic underperformance of the resource sector relative to the industrial and financial sectors is again a feature of the annual returns – refer to the chart to see how dramatic it was. The portfolio's underweight position within the resource sector (relative to the All share index's weighting) has assisted the returns of the portfolio over the past year although for reasons discussed above the underperformance during the past quarter retarded the annual returns to March somewhat. Not shown in the chart are the annual returns of large, mid and small cap index, which rose 22.7%, 20.3% and 26.3% respectively.

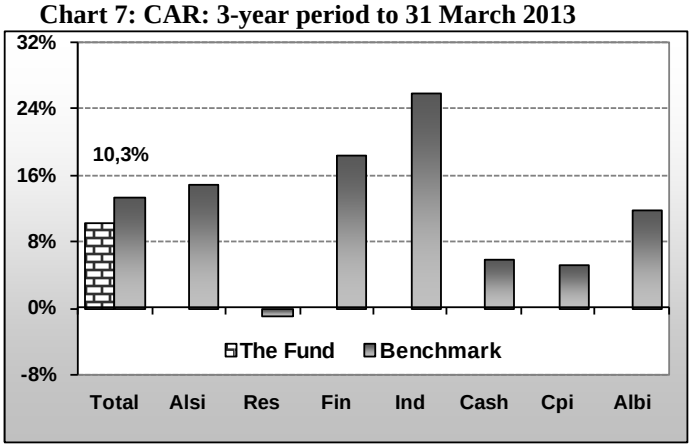
As a matter of interest, there have been a number of shares which have really performed poorly in the year to March and it has resulted in some investment managers with respectable track records underperforming the markets severely. A feature of the underperformers has been their adherence to a "value" approach. So-called "value managers" have now lagged the market returns consistently for a while already. It seems the more they adhere to their purist view, the more they underperform the market. That said there continues to be a wide range of shares that have both under- and outperformed the market in spectacular fashion. Those that would be of interest to you and which are held in most Maestro portfolios include Metmar, which declined 29.6% in the past year; Exxaro is down17.6% and Anglo 16.0%. Billiton, long our preferred mining house, rose 15.6% over the same period. Steinhoff declined 9.1%. Of course there have been some significant losers, which we managed to avoid. Some of the larger and better-known names include Arcelor Mittal, which declined 49.2% in the past year. Telkom fell 37.5%,Goldfields 32.5%,Altech 30.8%,Amplats 28.4%,Harmony 29.1%, Anglogold 23.8% and Murray Roberts 16.4%.

Other shares which worked well for our clients by registering annual returns way in excess of the All share index rise of 22.5% included Coronation, which rose 69.4%; Aspen rose 61.1%, Pinnacle 54.1%, Richemont 52.4%, City Lodge 45.1%,Investec 36.3%, Naspers 32.9% and Mr Price 24.0%. Of course many shares which our clients did not own also did very well. You may be interested in some of these names, so I will list a few: Mondi rose 72.9%, Medi-clinic 71.2%, SABMiller 58.0%,Discovery Holdings 55.3%,Woolworths 46.6%, Old Mutual 45.4%, Netcare 39.4%,Tongaat 37.9%, Remgro 37.3%,Bidvest 34.8%, Shoprite 33.1%, Liberty Holdings 32.6%, Growthpoint 32.8%, BAT 28.1%,Hyprop 27.2% and Redefine 24.1%. As you can see from all the above returns there were plenty of areas to make and lose money in the past year, unlike other previous years when shares either rose or fell in virtual unison.

The compound annual return (CAR) of the Fund, shown in Chart 7, ***over the three-year period to March 2013 was 10.3%*** while the equity component returned 11.7% which can be compared to the return over the same period of the All Share Index's 14.9%.

It is clear from Chart 7 which sectors have driven the equity market higher over the past three years. Across the market cap spectrum, it will come as no surprise that the large cap index lagged the mid and small cap indices with returns of 14.2%, 18.8% and 19.1% respectively. **The respective CARs for the All Bond index and cash over this period were 11.9% and 5.9%.**

Chart 7: CAR: 3-year period to 31 March 2013



6. International component of the Fund

The activities of Central Park Global Balanced Fund are communicated via monthly Fund Summaries as are the positioning and performance of its portfolio. I suggest you use the Central Park Quarterly Report as the primary document for the evaluation of Central Park's return as it is unaffected by timing and currency distortions. The returns to end-March of the Fund's international component, in rand terms, are listed in Chart 8 and the *same* returns in dollar terms are listed in Chart 9. We have previously pointed out but it is worth repeating here; the benchmark against which Central Park measures itself is a demanding one, as it contains a 20% weighting in a hedge fund index, which most of Central Park's peers do include. Although markets in general have been volatile and weak during the past decade, hedge fund indices have been less volatile and weak which has supported the benchmark returns during most periods. This is worth bearing in mind when analysing the returns shown in the charts.

Following a rewarding 2012, Central Park has struggled to keep pace with the surging global equity markets so far this year, registering a disappointing return during the March quarter. There are four main reasons for its under-performance. Firstly, concerned that the very strong markets had run ahead of the underlying fundamentals, we hedged some of the equity gains in March, which proved premature as equity markets have continued to rise strongly and register record gains, despite a slow and fragile global economy. Secondly, the dollar has been firm so far this year, which meant that the non-dollar portion of the Fund, which at the end of March represented53.8% of the Fund, proved to be a drag on the relative returns. The euro, sterling, Swiss franc and rand declined 2.6%, 6.6%, 3.3% and 7.5% against the dollar in the first quarter. Thirdly, the Porton investment, which at 14.1% is the Fund's largest holding, registered a flat return during the quarter. This proved to be a drag on Fund's relative performance in the face of rampant equity markets. And finally, the Fund's hedge fund investment, Bristol International, which constitutes 6.0% of Central Park, registered a poor return. It declined 4.0% during the quarter, which exacerbated Central Park's underperformance, given that the hedge fund component of the benchmark rose 3.6% during the quarter.

Chart 8: Global rand returns to 31 March

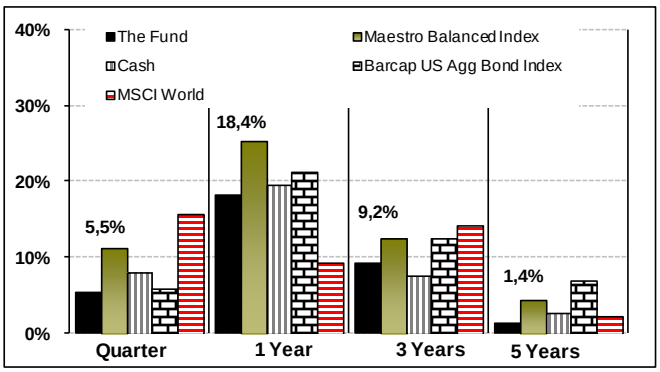
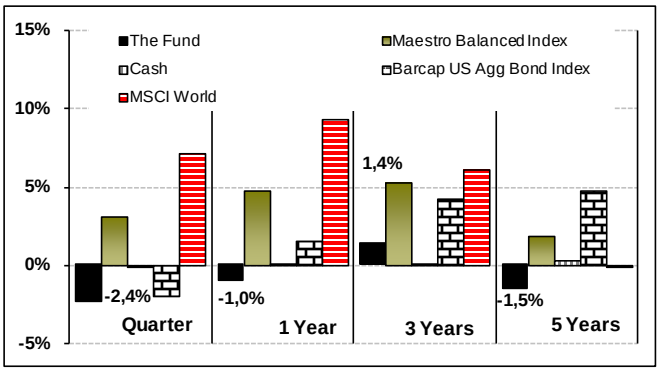


Chart 8 and 9 show that Central Park rose 5.5% in rand terms during the March quarter but declined 2.4% in dollar terms. The rand, which declined 7.5% during the quarter, proved supportive of the dollar returns. The trend of higher rand relative to the dollar returns can be seen in Chart 8 and 9 over the past 5 years and vindicates the decision by local investors to diversify their investments out of the South African market to benefit from a weakening local currency.

It is best to review the offshore returns in light of these comments. I also refer you to the March Central Park Quarterly Report, for a detailed analysis of Central Park Global Balanced Fund's returns.

Chart 9: Global dollar returns to 31 March 2013



7. Closing remarks

From the specific remarks relating to the returns during the March quarter, you will see that our returns have been below-market. Clearly we are not happy about this and are working hard to rectify it. However, as you are aware, there are times when shares and indeed portfolios pause for a breather, which is all part and parcel of equity investing. While the portfolio "pauses" we work hard to isolate the reasons for the pause, see if any remedial action is required, and then act accordingly.

That is what has been taking up our time recently. The global economy and market risks are awkward to read at present, and we are certainly not alone in feeling this way. Having shot out of the starting blocks at the beginning of this year (in all honesty markets have been strong since mid-November last year), most analysts are of the view that equity markets have run ahead of themselves. Yet markets continue to rise strongly – global ones more than the local market – and this is cause for concern. History, though, has taught us that "bull markets climb walls of worry" and this year we seem to be experiencing another one of those moments. This year we will be more alert than usual to the "sell in May and go away" phenomenon, remembering that applying that approach to the markets last year would have been a disastrous strategy! As a matter of interest, since 1 May 2012 and the end of March 2013, the MSCI World index, US, German and SA equity markets have risen 10.9%, 12.3%, 15.3% and 19.1% respectively.

In short, we continue to monitor all the companies we have invested your capital into. There are some that have proved to be a terrible disappointment but we feel it is worth remaining invested with a view to recouping some of the losses – in all instances these investments constitute only a small portion of the portfolio – while other shares have done particularly well. The latter case is almost more difficult to deal with, as we have to take a view on whether to remain invested or decide whether the best part of the return is behind us. These kinds of decisions are part and parcel of "our day job" and you

should not be concerned at the modest first quarter returns, relative to those of the market. We remain confident in our ability to manage money in the SA and global markets irrespective of the prevailing circumstances, and are confident that our returns will again exceed those of the markets in due course.

One final point worth highlighting is that we are inherently conservative, which simply means that we err on the side of caution. The returns therefore fall short of the market at times, but you should also bear in mind that if the market had to decline significantly in the short-term, your portfolio is unlikely to decline by as much as the market.

All that remains is for me to thank you, on behalf of the whole Maestro team, for your ongoing support and the confidence you have displayed in our abilities. We are very grateful for it and will never take it for granted. As usual, we are here to serve and be of assistance to you, so please do not hesitate to call on me if ever you wish to discuss anything about the Trust's portfolio.

David Pfaff
On behalf of the Maestro team
30 April 2013