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 87 855 797

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
David Pfaff

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CAPE TOWN
8000
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The Maestro Growth Fund

Quarterly report for the period ended

31 March 2014

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. I also refer you to the *Market commentary – March 2014* report wherein we discuss in detail the market activity during the quarter.

2. The investment position of the Fund

The Fund's asset allocation is shown in Chart 1. Exposure to the equity market totalled 64.1% of the Fund, slightly up from 63.0% in December. Bond exposure decreased to 6.7% and offshore exposure decreased by 1% to end the quarter at 18.4% of the Fund. Cash represented 7.6% of the Fund up from 6.5% at the end of December quarter. Property exposure declined slightly to 3.3%.

Chart 1: Asset allocation at 31 March 2014

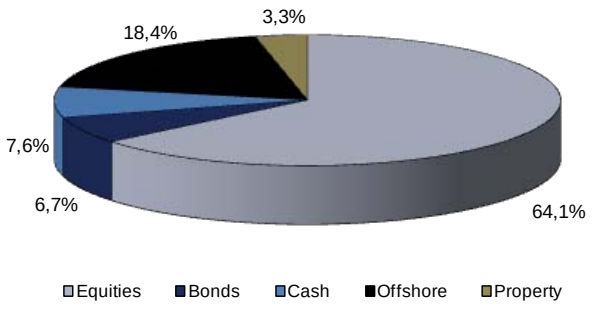
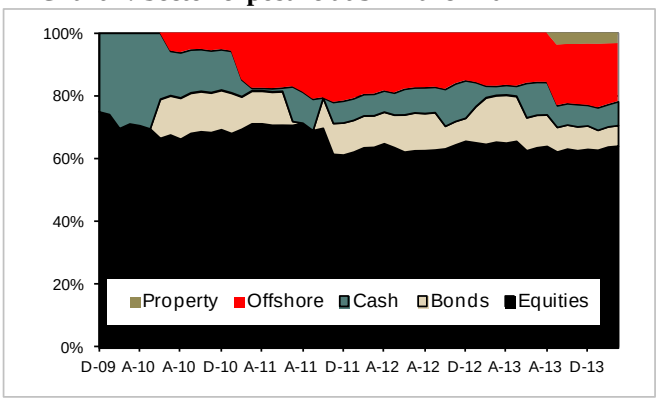


Chart 2 depicts the historical allocation to the major asset classes, expressed as a percentage of the total Fund.

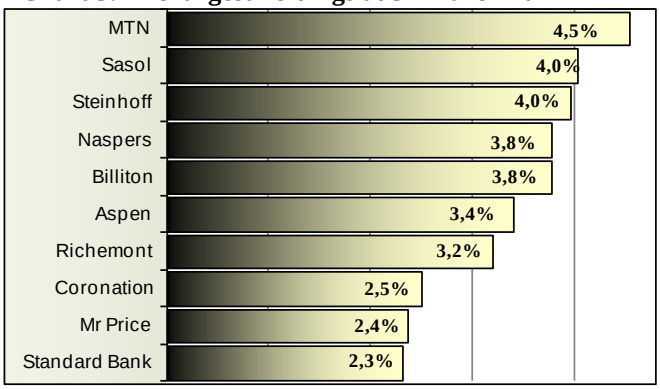
Chart 2: Sector exposure at 31 March 2014



3. Largest Holdings

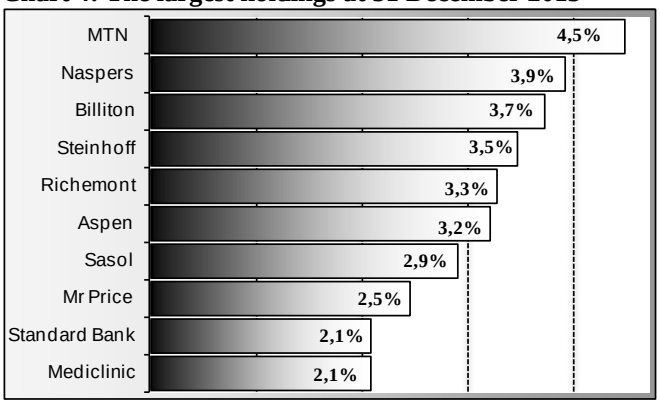
The largest holdings at 31 March are listed in Chart 3 expressed as a percentage of the Fund's equity portfolio.

Chart 3: The largest holdings at 31 March 2014



The largest holdings at the end of December 2013 are listed in Chart 4. During the quarter, Coronation replaced Mediclinic in the top 10 holdings of the Fund. At the end of March there were 32 counters in the equity component of the Fund, unchanged from the December. The ten largest holdings constituted 33.9% of the Fund slightly up from 31.6% in the previous quarter.

Chart 4: The largest holdings at 31 December 2013



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.

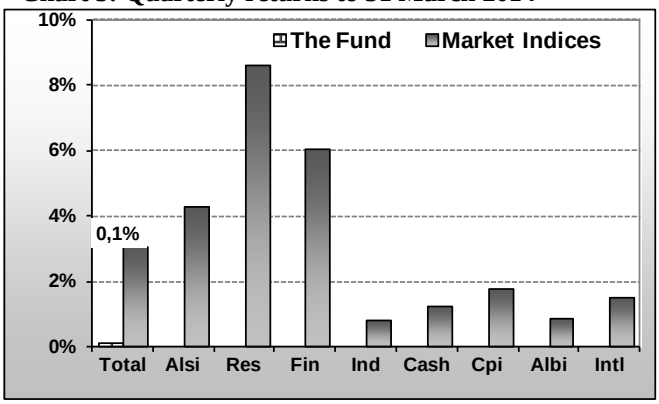
We are still of the opinion that domestic equities are the asset class of choice over the medium to long term. The Growth Fund's exposure to equities increased slightly by 1.0% and its cash exposure also increased by 1.0% during this first quarter of 2014. The Fund's bond exposure decreased by 0.9% and Property decreased slightly by 0.1%.

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 March quarter was 0.1%*** which can be compared to the Maestro Growth Fund benchmark of 3.1%**.** I encourage you to read the commentary on the market movements during the quarter in the document entitled *Market commentary –March 2014.*

Chart 5: Quarterly returns to 31 March 2014



The international component produced a rand return of -0.7% and also decreased -1.1% in dollar terms. The rand declined 0.4% during the quarter. ***The Fund's quarterly equity return of 0.2 %*** can be compared to the All share index returns of 4.3%. 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.

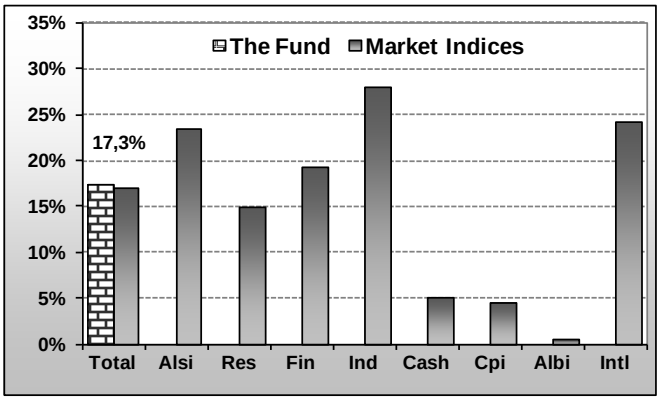
After stuttering at the start of the year, the local market picked up momentum towards the later part of the March quarter. Concerns on the effects of the US Federal Reserve's (Fed) tapering (reduction in asset purchases) clouded the outlook for emerging markets for the better part of the quarter. As the quarter progressed, investors began to focus more on the prospects of a faster growing US economy, which caused some of the taper concerns to abate. The 4.3% gain in the aggregate local index conceals the volatility investors had to contend with during the first quarter. Concerns about a slowing Chinese economy, overvalued technology shares and an escalating crisis in Ukraine, all contributed to the share price swings during the quarter.

During the quarter, we witnessed somewhat of a switch in investors' sector preference relative to 2013. Whereas industrials were the best performing sector throughout 2013, basic materials had an impressive showing in the March quarter, as they rose 8.6%. Financials were a close second with gains of 6.1%, and industrials rose a pedestrian 0.8%. The strength in resources was led by gold miners, which returned a staggering 42.6%, although they declined 54.6% in 2013. We have often commented on our aversion to investing in gold shares and we believe that despite the strong quarterly return, the past 5 quarters provide ample evidence to support our view. Over the past 5 quarters, the gold index's returns read as follows: 42.6%, -16.6%, -0.4%, -33.5% and -17.9%. No matter which way one looks at it, those quarterly returns are the quintessential definition of volatile (read: risky). As if that volatility was not bad enough, over that 5 quarter period, an investor into the gold index would have lost 35.3% of their capital; not only has one endured high risk by investing in gold stocks, but they have also suffered lower returns.

Let us look at the March quarterly returns of some of the Fund's investments. The quarterly returns, excluding dividends, of the largest holdings in the portfolio were as follows: MTN -0.7% (it rose 10.7% in the December quarter), Sasol 14.6% (7.4%) Steinhoff 3.1% (26.2%), Naspers 6.0% (18.0%), Billiton 0.4% (8.9%), Aspen 4.7% (2.3%), Richemont 3.4% (3.6%), Coronation 23.8% (16.6%), Mr Price -3.9% (17.8%), and Standard Bank 7.2% (8.0%).

As material as some of the share moves above are, we tend not to read too much into the short-term returns of the Fund's portfolio. We tend to focus more on the longer term returns and I would encourage you to do the same as you draw conclusions on the Fund's performance.

Chart 6: Annual returns to 31 March 2014



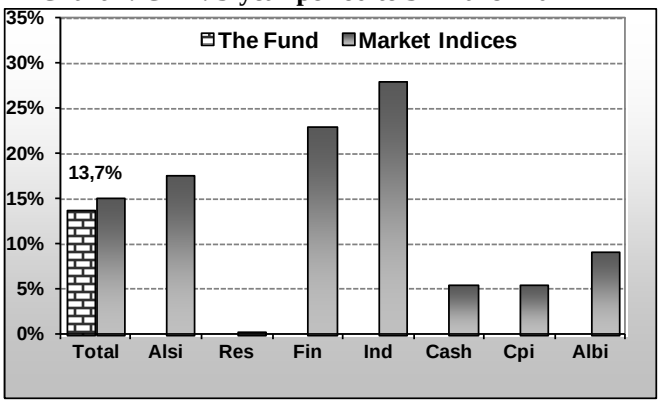
The annual returns to March are shown in Chart 6. ***The annual return of the total Fund for the 12 months to March was 17.3%***. Inflation rose 6.0% over the year and the All bond index rose a meagre 0.6%. ***The annual return on its equity component was 23.6%*** which is in line with the All share index return of 23.6%. Inflation rose 6.0% over the past year and the All bond index rose a meagre 0.6%.

Chart 6 clearly shows the strong outperformance of the industrials index during the past year, despite underperforming in the March quarter. It is probably worth highlighting that despite our preference for industrials and financials over resources, and the fact that they have outperformed over the long-term, that is not to say there won't be periods when resources are strong, which will likely lead to us underperforming. We remain comfortable with our overweight industrial position for now. During the past year, the shares that drove the Fund's returns include Coronation, which rose 106.3%, Steinhoff 103.9%, Naspers 102.7%, EOH 66.1%, Aspen 47.3%, Sasol 44.7% and Richemont 39.3%.

The compound annual return (CAR) of the Fund, shown in Chart 7, ***over the three-year period to March 2014 was 13.7%*** while the equity component returned 16.3% which can be compared to the All Share Index return over the same period of 17.6%.

Again, it is clear from Chart 7 which sectors drove the market higher over the past three years, and it is quite remarkable that the resource sector rose a menial 0.3% *per annum* over this period. Across the market cap spectrum, the large-cap index managed to maintain pace with the mid and small-cap indices, largely thanks to the industrial shares. The three-year compound annual returns of the large, mid and small-cap indices are 17.5%, 17.8% and 22.3% respectively. The respective compound annual returns for the All Bond index and cash over this period were 9.2% and 5.5% respectively.

Chart 7: CAR: 3-year period to 31 March 2014



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.

Bear in mind that the benchmark against which Central Park measures itself is a demanding one; it includes a 20% hedge fund weighting, which most of Central Park's peers do not include. Although global markets in general have been volatile during the past decade, hedge fund indices have been less volatile, which has supported the benchmark returns during most periods. This is worth bearing in mind when analysing the long-term returns shown in the charts.

After enjoying two strong quarters, Central park's returns somewhat stalled during the March quarter. Investors' preference for developed versus emerging markets, which began during the earlier part of 2013, continued throughout the March quarter and proved to be a headwind to the Fund's performance, particularly in the earlier part of the quarter. During the course of 2013, we took the decision to down weight the Fund's exposure to emerging markets and increase our cash holdings, a decision that certainly aided the Fund's return during the March quarter. The equity component of the Fund, which at the end of the quarter constituted 62.4% of the Fund, was largely responsible for the underperformance; it fell 2.3% for the quarter versus the MSCI World Index's gain of 0.8%. During the quarter, a number of our large equity holdings, which have actually caused the equity component to outperform in the past, disappointed. Rolls Royce, Adidas and Volkswagen Prefs led the decliners as they fell 15.8%, 15.2% and 7.9% respectively. One factor that did work in the Fund's favour during the March quarter was the underlying currencies the Fund invests in. You will be aware that though Central Park is a dollar denominated Fund (it reports in dollars), less than half (46.3%) of the Fund is actually invested in dollar denominated assets. 21.6% is invested in sterling, 14.3% in Swiss franc, 9.9% in euros and 8.1% is invested in rand assets. With the dollar being weak relative to the euro, franc and sterling during the March quarter, it enhanced the Fund's reported dollar return.

Chart 8: Global rand returns to 31 March 2014

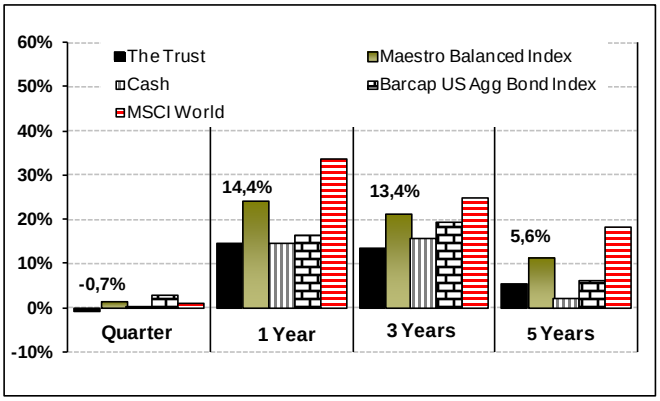
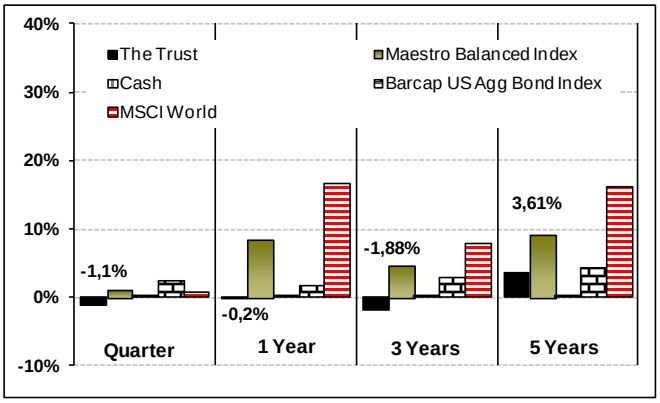


Chart 8 shows that Central Park fell 0.7% in rand terms during the March quarter and 1.1% in dollar terms as shown by Chart 9. The rand, which declined 0.4% during the quarter, proved supportive of local rand returns. The trend of higher rand relative to the dollar returns can be seen in Chart 8 and 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.

Chart 9: Global dollar returns to 31 March 2014



7. Closing remarks

Although the Fund earned a positive return for the March quarter, you will have seen that we lagged the market. While we are obviously not happy with this, we realise why this has happened and continuously work to see if any remedial action is required. Apart from that, you are probably aware that there are times when shares, and

indeed portfolios, pause for a breather, which is all part and parcel of equity investing.

Our outlook for 2014 remains the same as it was at the beginning of the year; we expect a continued improvement of the global economy, which should remain supportive of equity markets and negative for bonds and cash. Having said that, company and market valuations are not cheap and earnings growth is essential for investors to enjoy another year of good returns.

There remain several risks to our view, namely, the continued slowing down of the Fed's monetary easing policy and its effects on emerging markets. Geopolitical risks also remain a key concern, with the developments in Russia and Ukraine threatening to escalate, and a slowing Chinese economy that is dampening commodity demand. Although these all represent meaningful risks, it is worth highlighting again that it is all part and parcel of investing. Rather than spending an inordinate amount of time worrying about the risks that exist in the market, we spend more time looking for companies that we believe are better able to navigate the challenges that invariably occur in all economies. This strategy has worked well for us and we believe that over time, it will continue to generate higher risk adjusted returns for our clients.

As usual, we are here to be of assistance to you, so please, do not hesitate to call on me if ever you wish to discuss anything about your portfolio in further detail.

David Pfaff
On behalf of the Maestro team
15 May 2014