NORTHSTAR
ASSET MANAGEMENT

Client Letter 20 April 2012

Quarter End: 31st March 2012

Dear Investor

We are surrounded by uncertainty. Sometimes it expresses itself, other times not. The world was as risky a place on the 10th of September 2001, the day before '9/11', as it was on the 11th of September 2001. The danger is not risk itself, but our awareness, preparedness, assessment and responses that determine the extent to which we are affected, or not.

After the Costa Concordia cruise ship ran aground, on Friday 13 January of 2012, cruise companies around the world cut prices as cruise passengers cancelled reservations. For astute travellers, this would have been the ideal time to book a cruise trip. Given heightened awareness of the tragedy of the Costa Concordia, it would not be unreasonable to assume that cruise ship captains would be even more vigilant than before the Concordia event, and that risk of another accident would have been lower than before.

This same analogy applies to financial markets. Only unexpected shocks result in losses. Those anticipated are, depending on their probability and severity, varyingly discounted into market prices. As investors, uncertainty is our friend. When uncertainty is at its highest, we usually get our greatest bargains. And, vice versa.

This was illustrated when in the third quarter of 2011 the US dollar gold price spiked to $2,000per ounce. At that time there was great certainty from the 'experts' that $3,000 an ounce was merely a milestone to soon be passed en route to still higher prices. Ironically, it was that 'certainty' of higher prospective prices which enticed investors, at that point, to overpay for gold related assets. For us it was an opportunity to take profits on gold shares which we had previously bought for our clients at far less 'certain' times.

Uncertainty and risk aversion may encourage some investors to seek out so-called safe haven investments such as cash and bonds. Both of which currently have very low yields and prospective returns may well end up being below inflation, resulting in the long, slow and painful erosion of capital.

Uncomfortable as it may be to invest in shares in times of uncertainty, the disciplined application of a thorough, prudent and proven investment philosophy will, in the long term, be rewarding, and certainly considerably more rewarding than investing in so called risk-free assets which over time decay the real value of capital. It remains our privilege to be entrusted with the task of responsibly managing our clients' capital in these uncertain times.

Yours sincerely

Alexander Otten

Alexander Otten

NORTHSTAR ASSET MANAGEMENT (PTY) LTD.
4 Chester Drive Bishopscourt 7708 South Africa
Tel: 021- 797 8184 Fax: 021- 797 4706
email: info@northstar.co.za web address: www.northstar.co.za

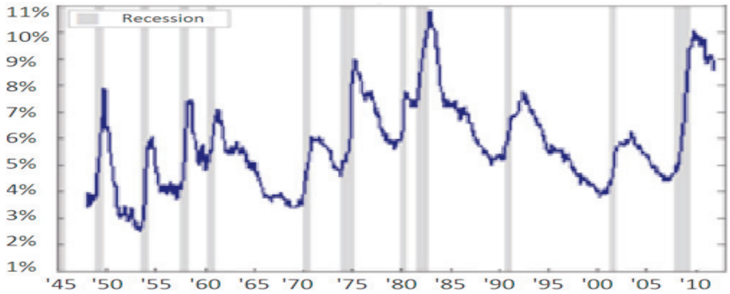
Company registration number 1996/001423/07
Member of the Fund Managers Association of South Africa
Regulated by the Financial Services Board of South Africa
VAT registration number 429 01 666 46
Member of the Investment Analysts Society of South Africa
Authorised Financial Services Provider - License number: 601

NORTHSTAR
ASSET MANAGEMENT

The US economy, the locomotive of global growth, is gradually recovering. As the world's largest economy, and more than twice as big as the next biggest, this matters. The unemployment rate in the US has peaked, but the slower than usual decline after previous recessions, mirrors the sluggishness of the present rebound.

It is worth noting that the current US unemployment rate remains at levels surpassed at only two periods (1975 and 1982/3) in the past 60 years. Statistics flatter to deceive and these fail to convey the extraordinary fall, to just 62%, of adult Americans' participation in the labour market. Many have given up looking for work and may resume again when the economy improves, increasing the unemployment rate at the time of recovery. Or worse, they may leave the labour market permanently with associated implications on the economy's future potential output and social welfare liabilities.

Percentage US unemployment rate 1945 to 2012 – inclusive (grey bar = recession)



Since peaking in October 2009, the decline in the unemployment rate has been much slower than the typical post-recession decline.
Source: US Department of Labour

We concur with Pimco's thesis, which refers to the 'new normal' as being a decade of resilient but underwhelming economic growth, hobnailed by a debt burden, increased regulation and higher structural unemployment.

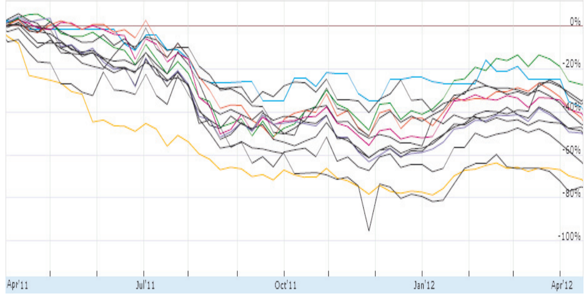
While America's recovery is uninspiring, it is laying the bedrock of the recovery with profitable banking, affordable housing and plunging gas and energy costs – thanks to their adoption of fracking technology to extract oil and gas from shale.

In contrast, Europe will flirt with recession until such time as European banks are sufficiently profitable to fuel the credit growth necessary to exit the crises. The Euro 1 trillion which the European Central Bank injected into the European economy in December and February prevented seizure, but it remains woefully inadequate.

Europe's second problem is that of sovereign solvency. In the past 19 months Europe's politicians have come up with no less than 6 distinct 'Comprehensive Solutions' to the crises. Thus far, all 'solutions' have focused on liquidity which 'kicks-the-can-down-the-road'. Sovereign solvency is a far more painful nettle to grasp and Germany, in particular, is understandably reluctant to underwrite the debt of fiscally irresponsible, profligate and over-borrowed countries.

Some of the potential bad news is already priced in the markets. The share price of major European banks has fallen -25% to -75% in the past year and show that investors are losing confidence and patience.

Share prices major European banks in past one year



Source: Northstar Asset Management

Europe will be the major issue for global financial markets in 2012. Whether, how and when its problems are resolved, will determine global economic and market outcomes. With the potential cost of failure being unimaginably high, there remains a strong incentive to find a solution. While the path to resolution is negotiated, there will be hard bargaining and brinkmanship which will unsettle markets.

However, this will not distract us in our continued focus on individual companies and their underlying fundamentals. Periods of market volatility provide those who have done their homework, opportunity to take advantage of temporarily incorrectly priced assets.

An expensive mistake for investors to make is to 'marry' shares that have performed strongly and to find it difficult to exchange these for ones that have performed less well. It is this rotation from fully valued shares to undervalued ones which generates tomorrow's winners and reduces overall risk inherent in a portfolio.

Some of our clients' largest holdings, indicating Northstar's highest conviction in their investment case, have performed particularly well, both in absolute terms and relative to the market. The current share prices of most of these are at, or near, record highs.

Share price appreciation can be a result of enhanced earnings or on account of improved investor sentiment which results in the rerating of a company and its prospects. (And, vice versa.) Usually it is a combination of these. However, each has very different risk implications for investors.

A company's intrinsic value is based on empirical data and may be used to underpin a sound investment case. Sentiment is a fickle and unreliable allay in investing. Should market conditions reverse, losses resulting from the former may lead to a temporary impairment of capital, while those from the latter usually result in a permanent loss of capital. It is a buyer's friend, as it can drive prices to below intrinsic value. Value is less volatile than price.

When investor sentiment rerated commodity producers to extreme levels, we heeded our own caution regarding unsustainably high global commodity prices. In doing so, we eliminated our clients' prior significant exposure to companies such as Anglo American Plc, Anglo Platinum, African Rainbow Minerals and Impala Platinum.

While underlying commodity prices have not declined significantly, the share prices of these companies are between 45% and 65% below their highs. In de-rating the shares, investors are tempering their optimistic sentiment, and then some. We have identified instances in which prices currently offer a discount to the company's normalised earnings and intrinsic value thereby providing long-term investors a comforting margin of safety.

Impala Platinum's share price has declined by 60% from its high. A low cost producer, with one of the largest reserves of this rare metal, Impala has been punished by two unrelated factors.

Earlier this year, at its main Rustenburg mine, 17,000 miners engaged in an illegal strike (largely fermented by rival trade unions). The six week strike led to tragic loss of life and production stoppages which cost the company over R2.5 billion in lost revenue.

If that wasn't enough, quite separately, the Zimbabwe government rejected Impala's initial indigenization proposal and, additionally, proposed massive (subsequently moderated) increases in land lease and prospecting fees. Little wonder that investor sentiment plummeted and the share price swooned.

Impala produces 80% of its platinum in South Africa which, in turn, has some 70% of the world's known reserves. The remaining 20% of Impala's production is in Zimbabwe.

The company needs to work its Zimbabwe concessions, or it will lose them. As long as these operations continue to add value, rather than be a liability, they provide upside optionality to the company's prospects and share price.

Given the unpredictability of the situation in Zimbabwe, in our investment analysis, we ascribe ZERO value to Impala's Zimbabwe assets: Australian listed, but 80% Impala owned, Zimplats.

Human tragedy aside, the strike has negligible impact on the long-term intrinsic values of the company based on its proven reserves and its capacity to extract and monetise these. The revenue 'lost' is simply revenue deferred. The stockmarket priced the share as if the strike was a permanent impairment, which it is not. The company will ultimately revert to its normalised productivity and profitability – our preferred measure of its intrinsic value.

Based purely on its South African operations, we believe that Impala currently makes a compelling long-term investment case. We are hoping for Impala's share price to further decline, allowing us to increase our clients' exposure at even more favourable prices.