



NORTHSTAR
ASSET MANAGEMENT

Client Letter

20 April 2005

Quarter End: 31st March 2005

Page 1 of 3

Dear Investor

A year ago we wrote that we saw a compression of valuations within the SA stockmarket. We were referring to the convergence of the pricing valuations of various investment strategies (eg: growth vs. value) of market sectors and of individual company share valuations. At that time these had, unusually, merged at a broadly fair-value level. Consequently, we explained, this would make it more difficult for us to exploit price differentials and inefficiencies within the market in order to generate low risk profits for our clients.

A year on and we are pleased to report that we are identifying some pricing anomalies re-appearing within the market. And, they broadly favour the strategic alignment of our clients' portfolios. Whenever valuation compression occurs, it inevitably unwinds to a more normal valuation distribution and is, in hindsight, frequently seen as a significant turning point for the market.

If corporate restructuring is our preferred strategy for locking in low risk profitable investments, then pricing inefficiencies must be our second favorite strategy. Pricing discrepancies are largely a consequence of human emotions influencing market participants -some may even call themselves investors. The basic emotions of fear and greed encourage investors to shun poorly performing assets and to accumulate whatever is "hot". We, as Warren Buffet advises; "try to be fearful when others are greedy and greedy when others are fearful".

We will only consider making an investment on our clients' behalf if our rigorous individual company analysis indicates that we are able to purchase a company's shares at a substantial discount to their inherent or fair value. This margin of comfort adds little value in friendly markets, but, as long-standing clients will vouch, it provides a crucial safety net in volatile or declining markets.

While the SA stockmarket has risen quite strongly in the short term, from a long-term perspective, we see relatively attractive broad based valuations. Strategically, we continue to rotate out of those shares which re-rated strongly on account of exceptional growth in earnings. Going forward the potential for these companies to continue to significantly outperform the market is somewhat reduced and we are redeploying the proceeds of these sales into less expensive counters which hold greater promise of future outperformance.

In the past quarter we trimmed some of our clients' largest holdings which, due to substantial out-performance, had become even more overweight than we had intended. Clients may also notice new names which appear in their portfolios. It is our intention to invest the increased cash which we have built up in our clients' portfolios by adding to these new positions on any retracement of their respective share price.

Yours sincerely

Alexander Otten

NORTHSTAR ASSET MANAGEMENT (PTY) LTD.

4 Chester Drive Bishops court 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

Market Report

Quarter End: 31st March 2005

20 April 2005

Page 2 of 3

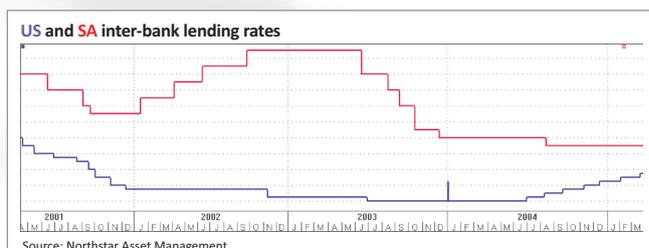
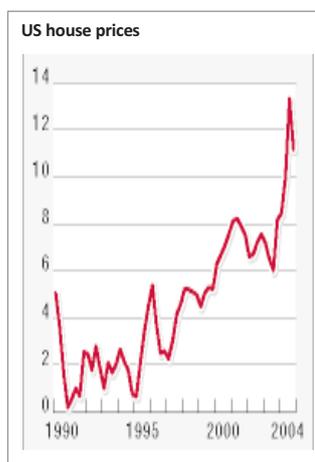
The typical American residence is now worth 50 per cent more than it was five years ago. In this period, US inflation has increased by less than 15%. According to the Federal Reserve Bank of New York, in the current run-up, real house prices have increased roughly twice as much as in the booms of the 1970s and 1980s.

US homeowners have regarded the capital appreciation on their homes as a form of accidental savings. Record low interest rates have allowed them to increase the borrowings against their appreciating homes and to spend the proceeds on consumption.

of the country's GDP growth. Raising US interest rates will see to that. Homeowners might be relieved if the worst they face is a period of flat house prices.

That outcome, though, would limit further cashing-out of increases in property value. Which, in turn, would risk denting US consumer spending, and with it both US and global economic growth.

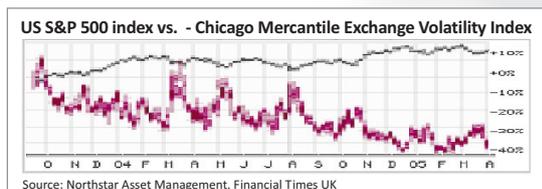
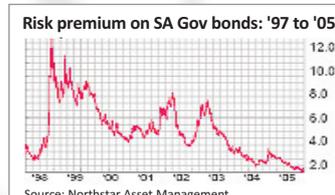
Mindful that the interest rate tightening cycle poses a risk to global financial markets, the US Federal Reserve has clearly telegraphed that it will, over an extended period, be raising rates at a "measured pace". The salami-slice increases of the past year are set to continue and will drain excess liquidity (cheap money) from the world financial markets.



With the rising of US interest rates the spread (differential) between the yield offered by US investments and more risky alternatives will narrow. Many emerging markets, South Africa included, benefited enormously as global investors parked their money in their high-yielding currency and domestic bonds. As US interest rates rise, investors will increasingly discover that US assets afford them not-dissimilar yields at lower risk.

As these investors migrate back to US assets we can expect this to be supportive of that currency and conversely we anticipate a decline in the value of those assets disposed of.

The more benign the investment environment, the more complacent investors become. World markets ended 2004 at their highs for the year. In the US, and in SA, investor confidence is near the record high recorded at the crest of the technology bubble in 2000.



Coinciding with this, other measurers of market risk, such as the Chicago Mercantile Exchange's Volatility Index (VIX), are priced near all-time lows, indicating investors' expectation of an uneventful year ahead. That expectation, like most economy in South Africa continues to power ahead. Its annualised growth over the past few years has exceeded its long term trend by a wide margin.



NORTH STAR
ASSET MANAGEMENT

Market Report

20 April 2005

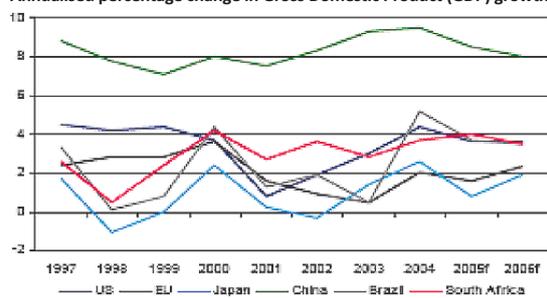
Quarter End: 31st March 2005

Page 3 of 3

The mid-April surprise interest rate reduction by the Reserve Bank was aimed more at the currency than at the domestic economy, which will benefit from it none-the-less.

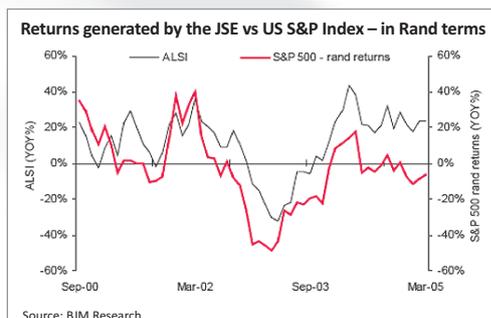
In announcing the rate reduction, the Governor of the SA Reserve Bank, Mr. Tito Mboweni stated that, in the foreseeable future, inflation is expected to remain within the 3% to 6% target band. However, he added that: "At current levels, the exchange rate seems to be creating some problems in the economy - we need a competitive exchange rate which does not bring about imbalances in the economy... I would like it to be at a competitive level and also stable."

Annualised percentage change in Gross Domestic Product (GDP) growth



Just as the US Federal Reserve clearly telegraphed to the market its intention to raise US interest rates, so too has the SA Reserve Bank telegraphed its intentions for the SA currency. We expect our clients to benefit substantially from the implementation of this policy.

Over the past five years, SA investors would have done well to have invested their capital in the domestic stockmarket as opposed to the US stockmarket. And this period includes the Rand crash of late 2001. Going forward we could well see more of the same. While we are not pessimistic about the US stockmarket, we see little to persuade us that, over the long-term, returns there will exceed those attainable in the SA stockmarket.



Our clients' portfolios have been designed to provide limited downside risk and, after its recent run, to have a low correlation to the SA stockmarket. While our short-term performance has kept abreast with the market in its powerful advance, our investment philosophy is directed at generating these gains at a lower than average market risk. Moreover, in selecting the particular shares which we have, we are confident of our continuing to provide superior long-term returns.

While our positions in Resource-based shares had prevented us from out-performing in the short-term, we believe that, in the longer-term, these companies offer very good value based on their normalised earnings. We have been adding to our clients' exposure to banking shares which remain attractively priced, offer high dividend yields and will be substantial beneficiaries of the recent interest rate reduction.

An increase in volatility in both global and local markets may well materialise. In that event, our clients will enjoy the protection of our portfolio design as well as the opportunity for us to acquire currently over-priced companies at more attractive prices. Recent price movements within the SA stockmarket have given rise to pricing anomalies which, over time, will further enhance returns on our clients' capital.

This will contribute to our mission on your behalf, namely to create meaningful capital for your future peace of mind.