NORTHSTAR

ASSET MANAGEMENT

Client Letter

Quarter End: 31st March 2006

Dear Investor

We are pleased to report that the last quarter has again produced significant gains in the value of our clients' portfolios, which have further outperformed the strong market.

The continued exceptional run in the market, and our clients' portfolios, somewhat undermines our recent cautioning that expectations of future returns should be tempered. However, the extended rally only reaffirms our caution and eloquently expresses why we place little value in our (or anyone else's) ability to make accurate predictions about the market's short-term prospects.

In the short-term, markets are seldom driven by investors such as ourselves, using quantitative research and empirical analysis. Sentiment, fueled by the basic emotions of fear and greed, is the major influence determining a market's near-term prospects.

At present sentiment towards emerging markets as an asset class is particularly favorable. This is unsurprising, given the huge gains which these markets have delivered in the past few years. For now, fear is forgotten as global investors pile in, desperate not to miss out on the ride. This wave of money flowing into emerging markets is less concerned about pricing valuations than it is about simply gaining exposure to the largely attractive long-term prospects of these markets.

In the past 12 months the JSE has gained 53%, and our clients' portfolios have enjoyed even greater growth. Our core investment strategy is to assume lower than market risks, while seeking greater than market returns. In pursuit of this strategy we accept occasional underperformance in very strong bull markets as a price we gladly pay for our usual outperformance of declining, flat and volatile markets. Therefore, our outperformance of this current robust market requires analysis and explanation.

One year ago we wrote to clients sharing our view that we had identified pricing anomalies within the SA stockmarket which we intended to exploit on behalf of our clients. Our findings led us to significantly increase our clients' exposure to resource, commodity and precious metal stocks. These shares have largely doubled since then and contributed generously to our outperformance of the recent strong market. However, we now, once again find the market sectors to be more evenly priced.

Much of the recent buying of the local market appears to have been somewhat indiscriminate and we are discovering interesting opportunities to build positions in companies which have a greater certainty of delivering enhanced financial returns to shareholders while paying no premium to the valuations at which merely average companies trade. We believe that, in time, the shares in these selected companies will outperform as their superior earnings, and prospects, become evident.

It remains our sincere privilege to manage our clients' investments and we look forward to continuing to produce above market returns at lower than market risk.

Yours sincerely

Alexander Otten

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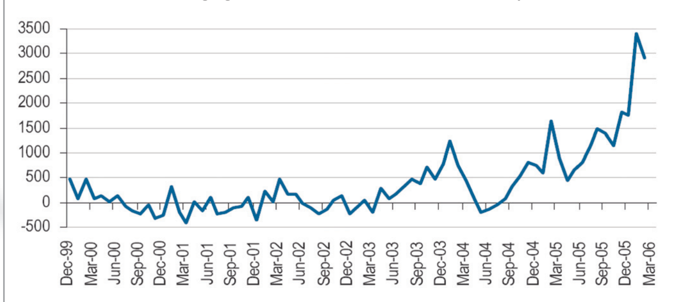
Market Report 20 April 2006

Quarter End: 31st March 2006

In the first quarter of 2006 the JSE gained 12.5%. However, it was not all one–way traffic. January saw the JSE gain 11%, in February it fell back by 8% and in March it recovered by 10%. Volatility aside, of particular interest is the JSE's almost exact replication of the price action of the global index of all emerging markets.

This reaffirms that much of the buying and price setting in these markets is coming from global players who have awoken to the long-term prospects of emerging markets and are determined to gain exposure, seemingly insensitive to valuation levels or price.



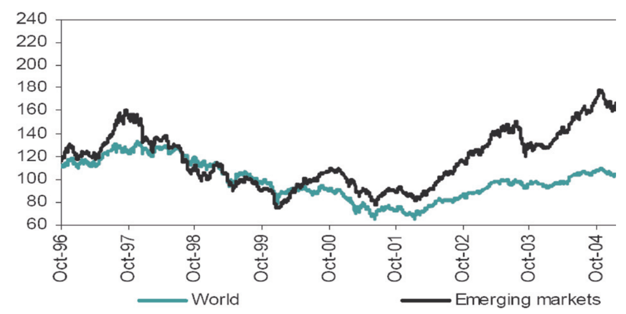
Global inflows into Emerging Market funds - US$ millions; 2000 to present

Source: Merrill Lynch International

In the first quarter of 2006, more than $34 billion flowed into global emerging market funds. Considerably more than the $20.5 billion that flowed into these funds in the whole of record-setting 2005.

Given the dramatic rise in the JSE in the past 18 months, it may be appropriate to reflect on expected future returns from the market. A commonly used yardstick of valuation is the Price to Earnings ratio (PE). The PE measures the ratio of the price paid for each unit of a company's earnings. If investors have high expectations of a company's future earnings growth, they are prepared to pay a higher price for each unit of current earnings. And, vice-versa.

Equally, this measure can be applied to the market as a whole and assists in evaluating both investor sentiment and the "expensiveness"' of a market. Historically, the JSE's PE has fluctuated between 8 and 16. Respectively, cheap and expensive. Currently it trades at a PE of 16 but, at the end of this financial year, increased earnings are expected to reduce this to 12.7. Assuming no price gain in the period, slightly on the rich side of average.



Morgan Stanley World & Emerging Markets Indices – 1996 to present

Source: Morgan Stanley Research

When company profits are at a cyclical high, or higher than normal, we would argue that one should be prepared to pay less for each unit of earnings (a low PE) as there is a large probability of lower (normalised) future earnings. For us, the reverse also applies. However, the market is not always at one with us on this.

South African industrial companies have never ever been as profitable as they are at present. In the past 2 years the average of listed industrial companies' earnings increased by over 40%. In the latest financial year, the average JSE listed industrial company's Return on Equity (ROE) stood at 34.7 - almost double the long-term average ROE for the sector.

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While these high levels of profitability may endure for a further 12 months, or more, they are unsustainable over the long-term. Competition will bring them back to more normalised levels. We would rather be the first, than the last, to recognise this. For, as soon as investors see the possibility of a decline in future earnings growth and, worse still, in actual earnings, they will apply more normal valuations to the market and individual companies.

To illustrate this point let us examine one of our clients' holdings. Tigerbrands, which, until we recently began to reduce it, was one of our clients' largest positions. In its latest financial year Tigerbrands achieved a return on equity (ROE) of 41.1. This is double the company's fifty-one year average ROE of 20.2

Not only are its earnings at double average levels, but Tigerbrands shares are presently trading at premium PE multiples, reflecting investor optimism in future earnings growth. Investors are paying the highest price ever for each unit of the highest earnings ever.

Tigerbrands is a great company with quality products and superb management. But this level of profitability is, in our opinion, unsustainable. We are currently reducing our exposure to this company whose share price has, since 2002 when first we identified it as being undervalued, given our clients a return of over 400% on their initial investment.

By our calculations the company is, at present, being priced to perfection and has limited potential marginal earnings to justify further price gains. On the contrary, were it to disappoint in its earnings, Tigerbrands' share price could well fall back to more normalised valuation levels.

We are putting the proceeds of these sales to work in selected companies whose share prices are in absolute terms, and by comparison, inexpensive. With this rotation we are reassured that our clients' redeployed capital now enjoys greater downside protection and greater upside opportunity.

One such company in which we have been building an investment position on behalf of our clients is Omnia Holdings. A diversified chemicals company with specific interest in the manufacture of agricultural chemical fertilizers.

A confluence of circumstances including: the strong rand, low maize prices, a protracted drought (now broken) in major maize growing areas and a record low planting and harvest (depressing fertilizer demand) conspired against this company's prospects in 2005. Earnings were (in our assessment) abnormally depressed. In 2005, while the JSE appreciated by around 45%, Omnia's share price declined by over 20%. Last year Omnia's shares underperformed the JSE by almost 70%. Not a popular share.

By our calculations, on normalised earnings and at current prices, this company's shares represent compelling long-term value. Thus we have begun to include Omnia Holdings in our clients' portfolios.

With the considerable inflow of foreign funds buying into the JSE, and the subsequent re-rating of the market, conspicuous value is not as easily identifiable now, as it was a year or two ago.

While, by our calculations, at current prices some shares appear to be overvalued, we continue to find attractive investment opportunities in overlooked counters and in companies whose earnings are not currently at their cyclical high and which have a strong probability of growing their future earnings at a rate higher than their peers and the overall market.

Additionally, our clients continue to hold significant positions in local resource companies with a bias towards those whose costs are denominated in Rands and whose earnings are Dollar based. Not only are these companies' shares attractive in their own right, but their earnings provide an optionality on the Rand exchange rate which, in our opinion, currently has more downside than upside.