NORTHSTAR

ASSET MANAGEMENT

Client Letter 23 April 2008

Quarter End: 31st March 2008

Dear Investor

We are pleased to report that our clients have emerged from a most turbulent past quarter with gains in the value of their portfolios.

While the Johannesburg Securities Exchange (JSE) All Share Index managed to eke out a small advance, this does not fully reflect the unusually diverse returns produced by individual shares in the period. In the past quarter the majority of shares listed on the JSE declined in price. However, the overall index held its value as the weaker rand bolstered the local share price of the London and JSE listed mega-cap Anglo American Plc. and Bhp Billiton Plc, which together constitute about 30% of the JSE All Share Index.

Over the past few quarters, as the business environment has become more difficult, many local 'blue-chip' companies have seen their share prices punished. We have for some time avoided exposure to the likes of Woolworths, JD Group, Imperial and Foschini, all of which have seen their share prices fall by about 60% from their recent highs. And, in the past three months alone even defensive companies such as SAB, Old Mutual and Pick n Pay, have seen their shares surrender a quarter of their value.

That, under these conditions, our clients' portfolios were able to appreciate in value and outperform the overall market reflects the benefit of our broader strategy of risk aversion and, more specifically, the advantage of share selection based on our proprietary research and single-minded focus on individual company analysis. Importantly, these results further enhance our clients' extended wealth accumulation and our superior long-term track record.

In many of our previous Market Reports we have highlighted our concern at the phenomenal increase in the use of debt, or leverage, in the financial markets. Over the past few years low interest rates and rising global asset prices rewarded leveraged investors with a 'free lunch'. However, with the reversal of these market trends, the risk side of the equation has come into the ascendancy. As losses mount aggressive investors are forced to unwind their positions, often in weak and thin markets, and so have amplified overall market volatility.

Being invested in challenging markets may, at times, feel uncomfortable. However, our experience has been that, for long-term value-orientated investors such as ourselves, difficult markets frequently provide the most generous opportunities. This is evidenced by the returns which our clients' have enjoyed after previous turbulent market conditions. We are confident that today's' opportunities will again translate into future significant wealth creation.

It remains our great privilege to manage and grow our clients' capital with the diligence and prudence that you have come to expect from us.

Yours sincerely

Alexander Otten

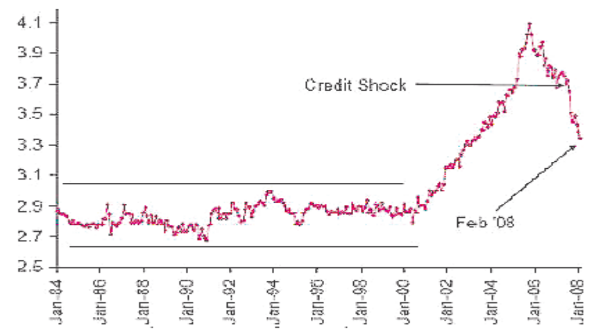
Alexander Otten

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

While economists may debate whether the US is technically in a recession or not the fact is that the economic slowdown is so severe as to be barely indistinguishable from recession. The US economy matters; it constitutes 40% of the global economy and its consumers account for almost 25% of global consumption. The nub of the problem, the fall in US house prices, may have some way to go.

Ratio of Median Existing Single-Family Home Prices to Median Family Income; 1984 to present



Source: National Association of US Realtors

It has been said that: "when the US sneezes, the rest of the world catches a cold". This was true in the 1950's and 1960's before the emergence of Europe as a monetary bloc and when the Cold War excluded vast regions from the global economy.

Today's talk is of the world economy de-coupling, that is, becoming less dependent on the US as the locomotive of global growth. The case is made that the economic momentum of China, Russia, India and others, makes them less vulnerable to a US slow down.

Since 1970 no US recession has led to a contraction in world output. This is reflected in the IMF's forecasts for 2008 world and US GDP growth of 4.1% and 0.5% respectively, and for ex-US 2008 global growth to register 4.8%. For economists this may be well and good, and possibly even interesting. However, for us investors, these facts flatter to deceive and do little to assist us in making investment decisions.

While a US recession does not stall global growth, it does result in a substantial contraction in global corporate earnings, and its effect is typically more severe outside the US than in.

As companies' shares are priced at a multiple of current and projected future earnings, when the US economy does, as at present, slow; the global markdown in share prices can be severe.

Moreover, the fall in share prices tends to be larger than the actual fall in earnings. This is explained by leverage and risk aversion as investors hoard cash rather than invest in falling markets.

For the same reasons, while recessions have grown milder, the peaks and troughs in company earnings have grown more volatile. So much for the theories of decoupling.

In the deep US recession of the early 1970's, the world economy still grew by 2%pa. But, during this period, company earnings outside of the US plunged by 66%. In the milder US recession of 2001/02, ex-US GDP growth held up at 5%pa. yet, in its wake, ex-US global earnings collapsed by 55% and US earnings fell by 47%.

For investors, the IMF's global GDP growth forecasts may not be so much as wrong, as irrelevant.

No two recessions are alike; in the 1970's high inflation understated the earnings fall. The 2001/02 recession resulted from the collapse of leveraged corporate capital expenditure. As company orders simply stopped, global share prices fell by 50%, albeit from extremely over-optimistic pre-slowdown multiples.

Today stockmarket forward earnings multiples are below average and imply that share prices are already discounting a slowdown in earnings and that prices would not have much further to fall.

The sub-prime carnage that has spilled over from the credit markets will put a unique spin on the current slowdown.

Where does all this leave us? The average fall in world share prices, in response to a US recession, is 20% to 30%. Most major markets have already fallen that far suggesting that the damage has been done and that a recession is already factored in.

However, as usual, analysts continue to forecast individual company earnings at too elevated levels. A recent study covering the period 1984 to 2006 found analysts' long-term earnings growth forecasts averaged 14.7% compared with actual growth of 9.1%.

If companies do report earnings as normally associated with a US recession, analysts' forecasts could be 30% to 40% wrong. Many investors base their decisions on these 'consensus' forecasts. Should reported earnings fall short of these overly optimistic 'consensus' forecasts, share price could yet come under pressure.

This explains why we prefer to rely on our own analysis and forecasts and why we have been rotating our clients' portfolios towards defensive companies with transparent risks and with highly predictable future earnings. It may seem boring, but it sure beats our clients experiencing the pain of a permanent loss of capital.

SABMiller has long been a highly regarded company. Few local or international companies have the calibre of management which has allowed SAB to grow from a relatively small local company to the largest brewing company in the world.

Operating in 40 countries, SAB's strategy has been to avoid highly competitive, low margin, mature markets. They have concentrated their roll-out in less competitive high growth, high margin regions such as emerging Europe, China and Latin America.

SABMiller share price in Rand (lhs) and Pounds (rhs)

Source: Northstar Asset Management

UK headquartered; SABMiller is a truly global company. Its primary listing on the London Stock Exchange, where its price is made, and it trades ten times the volume that it does on the JSE.

Despite our admiration we have been unable to justify the premium to intrinsic value at which SAB's share has historically traded.

However, in January a confluence of negative factors eroded the share price from £15.00 to £10.00 and, despite a 23% decline in the Rand exchange rate, from R210 to R160.

Eskom's January power cuts rocked investors' confidence in SAB's ability to manufacture and distribute local product. Not helping the situation was Sasol announcing that prolonged plant maintenance would prevent it from meeting local CO2 demand thereby adversely impacting SAB's carbonated soft-drinks market.

The South African division currently contributes around 20% of the Group's earnings and, as other regions ramp up, this is expected to fall to 15% by 2010.

Globally, high and rising input costs (glass, aluminium, hops, barley, electricity and fuel) will conspire to erode profit margins. Suggestions that Altria, holding 28% of the group's shares, might consider reducing its stake weighed on the share price as the possible overhang of shares sent investors scurrying.

This is very much when we like to buy a company's shares for our clients. When it is shunned by investors and unloved by analysts.

We have, at the lows of the share's recent price range, been able to build, by our measure, a very significant stake in SABMiller. Had the price fallen further we would have been delighted to add to our clients' position. We calculate that, for the first time in many years, SAB was trading at an attractive discount to its intrinsic value.

By-and-large, the headwinds that SABMiller faces are short-term problems. While near term earnings may decline (probably by less than is implied by the share price) in the longer term they will normalise and we are confident that, over time, our clients will be handsomely rewarded for their investment in SABMiller.