NORTHSTAR
ASSET MANAGEMENT

Client Letter 19 October 2004

Quarter End: 30th September 2004

Dear Investor

In the past quarter the Johannesburg Securities Exchange produced pleasing gains and our clients' portfolios performed well over the period.

However, this is an appropriate time to remind clients that quarterly returns frequently convey little more than statistical noise. In the short-term, share prices on the stockmarket are driven by human sentiment, which often tends to be irrational. This leads to over-optimism and over-pessimism causes the prices of companies to move away from their fair, or intrinsic, value.

Our investment philosophy is to invest in companies whose shares are trading at a substantial discount to our estimate of their fair value. Mostly this often involves our selling shares which are in fashion and those we buy are frequently out of vogue. Over time share prices revert to fair value thereby allowing shareholders to profit. This style of investing protects capital from permanent loss (as when over-rated technology shares reverted down to fair value a few years ago) and provides opportunity for our clients to profit irrespective of whether the overall market goes up or not.

It was purely coincidental that subsequent to our last Market Report in which we highlighted our investment case for Sasol, our clients' largest holding, that the share price gained 26%. While this brings the price closer to our calculated fair value, it remains a deeply attractive long-term investment.

In the past three months we sold out of our clients' position in Woolworths. Including dividends our clients have enjoyed an almost 300% return on our first identifying the share as under-priced. While currently not expensive, we believe the share to have eliminated most of the discount to its intrinsic value and believe there to be more attractive investment opportunities elsewhere in the market.

In the past quarter we added to our clients' exposure to Goldfields and to Standard Bank. We also made an initial purchase of Nedcor Bank after its shares had fallen sharply in response to restructuring announcements. Additionally, in the past few weeks we identified Metcash as a beneficiary of its proposed corporate restructuring and we have built a position in this company in our clients' portfolios. All of these investments were made at levels well below prevailing market prices.

With our ongoing research and analysis we remain confident of selecting share portfolios for our clients which will continue to provide pleasing results. As we know, in the long-term, the market moves money from the impatient to the patient.

Yours sincerely

Alexander Otten

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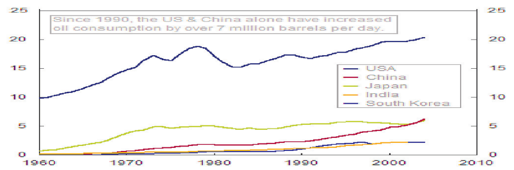
Market Report 19 October 2004

Quarter End: 30th September 2004

Oil consumption by country – Million of Barrels per day - '60 to '04

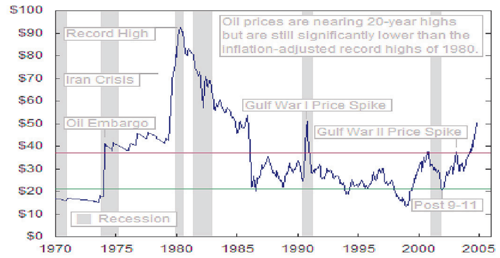


Source: JP Morgan

In the bubble era of the 1990's capital was shifted from the "old-economy" to the "new-economy". The resulting high cost of capital for smokestack industries (which require long lead times) such as; oil refining, electricity generators and steel smelters, led to severe underinvestment in those areas. With the world's economies presently experiencing a synchronized recovery, the increased demand has led to acute shortages and resulted in soaring prices in these basic industries.

The price of oil recently reached a record $50 per barrel; this will reign in the rate of global economic growth, rather than derail it. In real terms the oil price is substantially lower than its historic highs of early 1980's. However, it is noteworthy that oil price spikes have historically coincided with US recessions – grey shaded periods of the chart.

Oil price inflation adjusted & US economic recessions (grey bars)



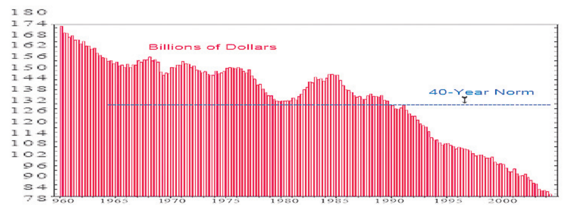
Source: JP Morgan

The International Monetary Fund forecast world economic growth of 5% in 2004 (the strongest in almost 30 years) and in 2005 sees this figure slowing to 4.3%, largely on account of the higher oil price. Both are above the world economy's long-term growth trend rate of 4%pa.

Despite the good economic global growth news, world financial markets remain range bound. Political uncertainties, rising interest rates, overextended US consumers, peaking corporate profits and higher energy and raw material costs are weighing the markets down.

Consumer spending, which accounts for 60% of the US economy, is under pressure. Higher gasoline price and higher interest repayments on outstanding debt are eroding discretionary spending. The US consumer currently has record low liquid assets relative to liabilities.

US household liquidity US$ (billions) – 1960 to 2004



Source: Ned Davis Research

It was the consumer who, by assuming ever greater debt, heroically consumed the US out of the 2001/2002 recession. If their spending were to decline, the economy could extend its current "soft-patch".

World markets are more reasonably priced than they have been for a long time. However, there is -at present- no obvious catalyst to justify them moving in either direction. This explains why, in 2004, volatility on world markets has been the lowest recorded in the past 15 years.

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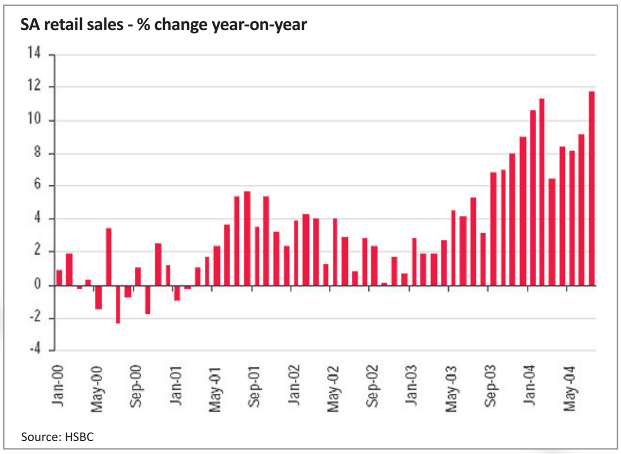
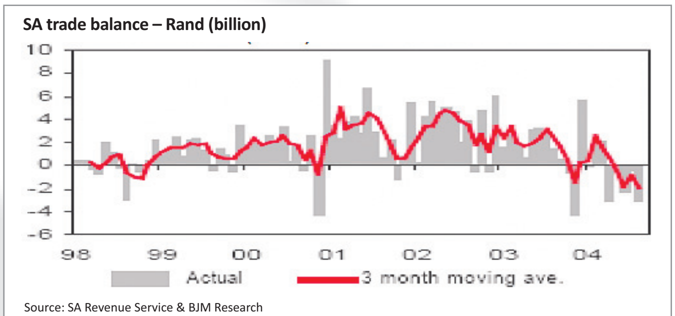


As shown in the recently released inflation figures, SA inflation remains under control and well within the government's 3% to 6% target range. The recent surprise interest rate cut by the Reserve Bank further stimulated consumer demand which is, at present, driving the economy at its strongest growth in decades.

On account of the strong consumer demand, retail companies' share prices have been marked up to demanding levels. In our opinion, on a normalised basis, the recent rate of growth in, and the absolute level of consumer demand, is unsustainable.

For this reason we have taken profits and rotated our clients' portfolios away from the retail sector and are investing the proceeds in other areas of the stockmarket where greater value is to be found.

The strong domestic economy has had a knock-on effect in the widening of the trade deficit on account of a sharp fall in exports versus a more moderate decline in imports. The deterioration in the trade balance has negative implications for the currency underpinnings and for interest rate prospects.



The recently announced intended bid by Barclays UK for ABSA Bank of SA has buoyed the currency market. If forthcoming, the bid will see R20 billion flow through the foreign exchange market into SA. It will be the largest single long-term foreign investment in SA since 1994 and could bode well for further substantial investments.

Conflicting, overcomplicated or opaque corporate structures generally cause companies' share price to trade a discount to their fair or intrinsic value. Corporate restructuring is one of the most certain mechanisms of unlocking this discount. For investors it is also one of the safest ways to invest as the share price has little downside prior to restructuring (the share is already cheap) and the closing of the discount offers attractive upside potential.

Tigerbrands, Kersaf (now Sun International), Tongaat, Afrox and AECI –among others- have all contributed to our clients portfolios through corporate restructuring.

We recently identified Metcash as another company which could add value to our clients' portfolios in this way. Despite its being in the largely fully-valued retail sector, our individual company analysis identified Metcash as a laggard of the sector whose sum of the parts value substantially exceeds its present share price. We believe that the proposed corporate restructuring of the company will, in time, reveal Metcash's inherent value to other investors and the market as a whole. We have built a position in this share in our clients' portfolios.