NORTHSTAR

ASSET MANAGEMENT

Client Letter 19 October 2005

Quarter End: 30th September 2005

Dear Investor

In the past two years the South African stockmarket, and our clients' portfolios, have enjoyed very strong gains. The last quarter was no exception. We have long argued the case in favour of the relative and absolute cheapness of the SA stockmarket. However, we now caution investors that we believe recent returns to be exceptional and unsustainably high and that expectations of future returns, from the SA market, should be moderated.

In the past two years the SA market has largely closed the discount at which it was trading to its fair value. Given the magnitude and speed of the market's appreciation, a correction or consolidation phase would not surprise us and would be welcome as it would allow price equilibrium to be restored.

However, we are not in the business of attempting to predict short-term market moves, preferring instead to focus on longer-term fundamentals and business dynamics. It is on this basis we assess that the overall South African market, while not over-valued, currently is largely fully priced.

We are yet to be convinced by those who argue that the momentum of consumer spending and, more particularly, domestic companies' strong earnings growth are sustainable over the longer term. On account of this, and the recent strong gains in the stockmarket, we are finding it increasingly difficult to find inexpensive domestically orientated shares for inclusion in our clients' portfolios. We do, nonetheless, continue to unearth attractive opportunities in the long shunned and under-owned resource sector, and it is here that we are building positions on behalf of our clients.

As consumer sensitive stocks fail to meet euphoric expectations, and as the currency adjusts to normalised levels, we expect others to be alerted to the inherent value of the resource sector and to rotate their exposure accordingly; to our clients' commensurate benefit.

Despite our caution we resolutely focus, not on near-term performance or possible market moves, but rather on continually rebuilding our clients' portfolios with a mix of stocks which maximises the long-term risk-adjusted return potential. In so doing we are able, on a sustainable basis, to reduce risk, preserve capital and grow our clients' wealth.

Yours sincerely

Alexander Otten

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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
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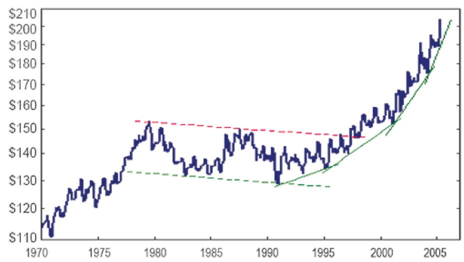
Market Report 19 October 2005

Quarter End: 30th September 2005

Median price- US single-family home, inflation adjusted in $'000; '70 to '05 -log scale



Source - National Association of Realtors - USA

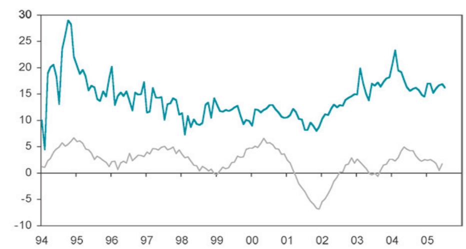
The borrowing binge of the late 1990's left many US companies with precarious balance sheets. While some went to the wall, others were taken over as depleted cash-flows precluded them from resisting advances from less-leveraged suitors. Those who survived the corporate cannibalism reduced debt and secured their future.

Or, so they thought. Some rivals did better and are now entering a second round of corporate consolidation.

Consolidation motivated by synergies, economies of scale and reduced competition adds to the profitability of the acquirer. Thank goodness corporate activity can enhance margins as they are unlikely to generate from the consumer for the foreseeable future.

For all the parsimony of the corporate sector, US consumers remain as profligate as ever. As corporate America repaired its balance sheet, the US consumer has leveraged theirs on the back of the appreciating housing market. Unsustainably, the rate at which US house prices are increasing, is increasing.

Industrial production growth '94 to '05: China —- vs. G7 —-

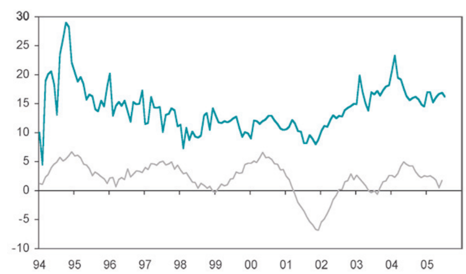


Source: Nedbank Securities

This has persuaded Americans that they needn't save as the ballooning value of their houses will take care of them in their retirement years. Over the past 20 years Americans have gone from saving 10% of their income to less than 1%. Recent data shows saving at 40 cents out of every $100 earned.

Talk of a housing bubble may encourage Americans to save again. Were they to increase these to half their long-term average of 7.4%, this would remove around $300 billion from spending and would cut consumption growth by 1% pa. US consumers provide 60% of the US economic activity and account for 25% of global consumption. Any slowdown would have serious knock-on effects.

Chinese Senzen Index 2001 to 2005



Source: Northstar Asset Management

The lack of savings by Americans is forcing US companies to look abroad for funds needed for investment. This leads to a ballooning current account deficit which undermines the value of the US dollar.

European economies remain moribund and mired in gridlocked politics. Japan is a bright spot, as the world's second largest economy slowly emerges from a decade lost to deflation and multiple recessions.

Albeit off a low base, Chinese industrial production has increased by around 15% per annum in each of the last ten years.

Counter intuitively, the Chinese stockmarket has performed poorly in the past 5 years in both Yuan and US$, to which it is pegged.

Despite this many investors, not least our clients, have benefited from China's growth by investing in commodity companies which supply the raw materials required to feed the ongoing, and increasing, demands of the Chinese economy.

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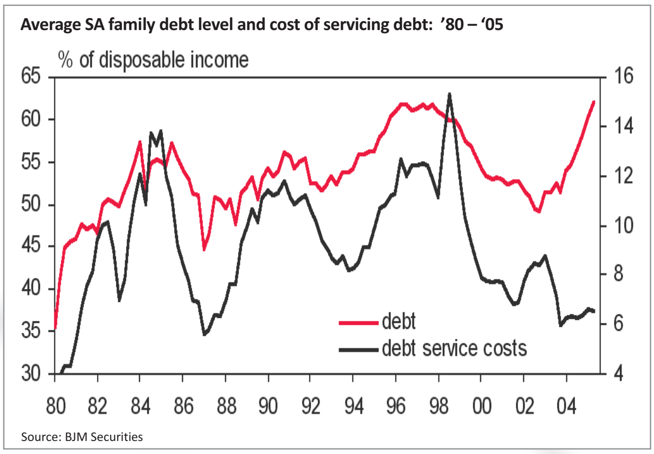


The South African economy is on track to grow by 4.8% in 2005. Much of this growth has been driven by consumers. Lower inflation and interest rates have boosted disposable income allowing consumers to splurge and assume increased debt levels.

While not over-borrowed, the SA consumer has now increased average debt levels to a near record 63% of annual disposable income. Levels last reached immediately prior to the Asian Contagion of 1998 when emerging markets experienced a run on their currencies and SA interest rates were hoisted above 20%.

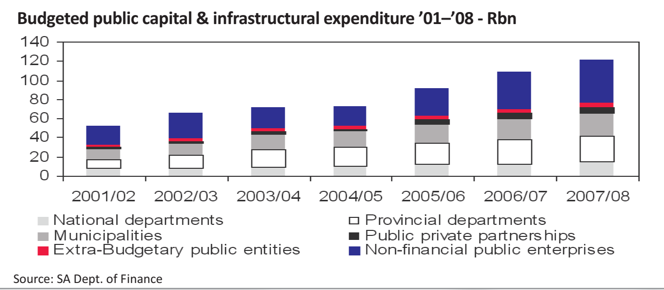
While the SA debt level may even go a little higher, it is unlikely to approach the 130% and 120% of average annual disposable income that it stands at in the US and UK respectively.

With global interest rates rising and with the knock-on inflationary effects of the high oil price, SA interest rates are unlikely to decline anytime soon; the next move will almost certainly be up. This will increase the cost of servicing debt.

Given the above, it would plainly be wrong for us to be looking to the SA consumer and more specifically, credit consumption, to be the engine of the targeted 6.0% economic growth. Over the next few years the main driver of economic expansion in SA will be state and para-statal infrastructural and capital expenditure.

Large projects such as the Gautrain, Transnet infrastructure upgrades and the commissioning of power stations by Escom will all have substantial secondary impact on the local economy.

In the light of this we have rotated our clients' portfolios away from the consumer retail sector and have increased exposure in industrial companies which will most benefit from these projects.



The market and our clients' portfolios ran hard in the last quarter and we regard such returns as neither normal nor sustainable. While we do not believe the market to be over-priced and vulnerable to a severe decline, expectations of near-term further gains are modest.

We are all perhaps better served by viewing the recent short-term performance swings as a reminder of the randomness of quarterly returns. Short-term uncertainty is a price we are happy to pay if we discover long-term opportunity. It is through this approach that we have over the years been able to produce a superior performance at a lower than market risk.