NORTHSTAR
ASSET MANAGEMENT

Client Letter 12 January 2009

Quarter End: 31st December 2008

Dear Investor

In the fourth quarter of 2008 Northstar's continued out-performance of the Johannesburg Securities Exchange (JSE) resulted in our clients experiencing losses, for the year as a whole, which were almost exactly half those delivered by the JSE All Share Index (ALSI).

In 2008 the JSE ALSI fell by 26% and our clients' portfolios declined by around 14%. While we regret to report any loss to our clients, we take comfort in our relative performance and our protection of client capital from more severe market losses. These results further extend Northstar's superior long-term track record, and would place Northstar third out of the 67 South African General Equity funds over the past year, and first over the past five years.

By way of comparison, over the past 5 years to end 2008, the JSE ALSI appreciated by 108.1%. Over that same period, the average Northstar client's portfolio has grown by 187.3%. This represents an average of an annual 15.8% outperformance by Northstar, in both up and down markets, and is the engine of our wealth creation.

2008 will be a year not fondly remembered by global investors. The MSCI Index of world stockmarkets fell by 42%; its worst ever decline in a calendar year. Moreover, 2008 was marked by extreme volatility in the financial markets with shares, commodities and bonds all experiencing unprecedented price swings.

While we had anticipated a challenging investment environment in 2008 we were, quite frankly, surprised at the speed and extent of the damage inflicted on the global economy. As clients will recall, we entered this period with very defensively structured portfolios which were directed away from companies dependant on the economic cycle, and towards large quality companies with transparent and confidently sustainable future earnings.

This caution served us well in 2008 and we will maintain this focus in our clients' portfolios until such time as we are confident that the global economic cycle has bottomed; which is unlikely to occur before the latter half of 2009.

It is incumbent upon us to alert our clients that this cautiously defensive approach may result in our missing the gains associated with the earliest stages of a recovery. For us, this is a price we are prepared to pay to protect against possible further downside losses which the markets may produce in the interim period. To our mind, caution remains the better part of valour. We remain confident that through the disciplined application of our investment philosophy we will, over the longer-term, continue to generate market beating returns at lower than market risk.

Yours sincerely

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It is no coincidence that the root of the English word "credit" is credo, Latin for 'I believe'. The 2008 credit crisis roiled global financial markets and certainly tested investors' belief. While we do know that money does not literally make the world go round, we have witnessed how the contraction of credit availability constricts the quantities of people and goods which go around the world.

In early 2008 the daily ship charter rate for a Cape-sized bulk carrier was $230,000 per day. Such has been the demand destruction that today that price is less than $10,000 per day. Commodities such as oil, copper and iron ore all tell their own story of the collapse in demand.

The shrinking of available credit in the global financial system has led to financial markets experiencing unprecedented price volatility as investors, in their quest for liquidity, sell what they can, rather than what they want.

In 2008, many major share markets experienced their worst ever calendar year loss. The banking systems of the USA, UK and much of Western Europe were effectively nationalised as governments injected extraordinary sums to recapitalise banks and prevent systemic collapse. Additionally, short-term interest rates were slashed globally; in the UK to their lowest level in the 314 year history of the Bank of England.

US Treasury 30 year bond - % yield to maturity: 2000 to 2008

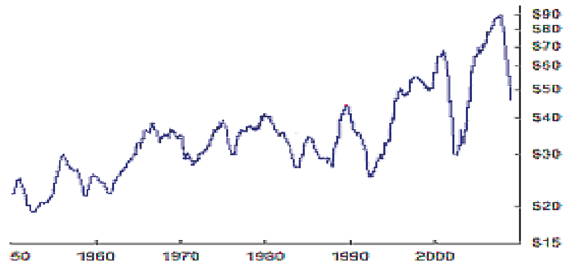
Source: Northstar Asset Management

So nervous were investors that they became more concerned about the return of their capital than the return on it. At government auctions investors bought US Treasury bills yielding negative interest rates; thereby guaranteeing both a small loss of capital and the return thereof in some months hence.

Indeed, we see international government bonds as the next bubble in the making; the bursting of which will have a significant spill-over. The recent 'flight-to-safety' resulted in a massive yield compression with the yields on the 30 year bond falling to just 2.5%pa.

It is estimated that the 2009 US budget deficit will leap to $1.2trillion. The planned economic stimulus package will take the deficit to 10% of GDP and will be the largest deficit since World War II. Government issuance, to finance this shortfall, will swamp the bond market; and once the inflationary effects of the $750bn planned fiscal stimulus feeds into the economy, we expect bond prices to collapse as yields normalise.

US Standard 6 Poor's 500 Index - trailing earnings 1950 to 2008 (log graph)



Source: Northstar Asset Management

Just as, in the past, we proposed that investors were under-pricing risk, this recent behaviour implies the opposite.

Our oft repeated view that company earnings had been abnormally and unsustainably high was borne out in the past year by the halving of the trailing earnings for the US Standard & Poor's 500 Index; which currently stand only 19% higher than peak earnings in 1966.

While these reduced earnings appear to be discounted in current stockmarket prices, we would not be surprised to see shocked investors further mark down prices when companies report their truly terrible current earnings in the months ahead. Equally, we would expect to see the price of less affected peer group companies being marked down in sympathy.

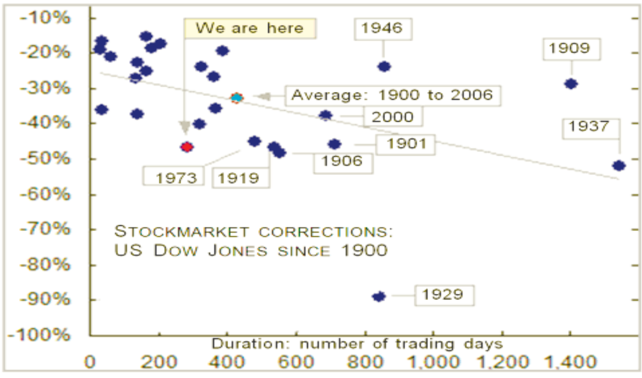
Just as earnings were abnormally and unsustainably elevated; at the bottom of the current recession they will be similarly abnormally and unsustainably depressed. And, as investors were overpaying, through high price-earnings multiples, for each unit of elevated earnings; at their nadir, despondent investors will throw in the towel allowing the more astute to acquire companies at sub-normal earnings and at sub-par price multiples.

As long-term value-orientated stock-picking investors, we look forward to the opportunities that this affords us.

However, we remain patient and disciplined for we have yet to be convinced that we have reached the low-point of the current economic cycle.

To give some perspective, the graph below compares, in severity (% loss) and duration (number of trading days), the current stockmarket correction with the 26 US corrections (15% loss or greater) that have occurred since 1900 - approximately once every 4.5 years. The current correction, which began when the market peaked in October 2007, is thus far the fourth largest on record and, to date, slightly below average duration.

US Stockmarket corrections post 1900 - Severity (% loss) & Duration (# of trading days)



Source: Northstar Asset Management

In the current sell-off, world stockmarkets declined by an average of -42% in 2008 and have lost -46% from their 2007 highs. While there are already many attractively priced investment opportunities in the market, this does not preclude that which is currently cheap, from becoming still cheaper.

We are concerned that the credit crunch may not yet be over and that it could spread from mortgages to consumer and personal credit. Moreover, deleveraging will continue as forced sellers, including thousands of hedge funds (many of whom will go bust) and other leveraged players are forced to sell assets into distressed and illiquid markets in order to satisfy banking covenants, revised regulatory requirements and investor redemptions.

These factors underline our lack of urgency to currently assume risk. Consequently, our clients portfolios remain defensive; constituted of very high quality companies which have transparent and highly visible sustained future earnings.

We should advise clients that our intended prudent strategy, which served us well in 2008, may well result in our missing the first stage of the price recovery of more risky assets, should this occur unexpectedly soon. To our mind, this is a potential opportunity cost well worth paying for the protection of our clients' capital from the permanent loss which more adventurous investors may experience.

In challenging markets, such as those of late, we at Northstar do nothing different from what we do at any other time: we focus our energies on rigorous research and the disciplined application of our investment philosophy. This consistent approach has enabled us to come through prior market crises, and less trying times, with returns which exceeded the market while assuming lower than market risk.