NORTHSTAR
ASSET MANAGEMENT

Client Letter 31 March 2003

Quarter End: 31st March 2003

Dear Investor

In this past quarter we lost money on our clients' portfolios. The local share market has performed poorly down 17.7% year-to-date and is 34% off its May 2002 peak. That we are reporting losses significantly smaller than those of the overall market gives us some comfort.

In the last quarter the strong Rand, the uncertainty over the war in Iraq, weaker global markets, the weaker US$ and, after a strong run-up, a retracement in gold and platinum prices, all collaborated in the decline in value of our clients' portfolios.

The stronger Rand, compounded with the fall in global markets, has pressured the previously glamorous dual-listed shares. As these, by capitalisation, constitute the bulk of our market, it is unsurprising that we have followed global markets down.

We sold out position in Reunert. The company's stated intention of expanding through acquisition into the USA has, we think, increased its risk profile. The very substantial gain on our original investment, which we realised on the sale, makes the parting less painful.

The current market volatility provides opportunity for us to increase exposure to world class companies at very low rand prices. In the last quarter we have increased exposure to Anglo American, Sasol, Gencor and Kersaf, and at prices even lower than those at which these stocks ended the quarter.

While the share markets have been falling, for individual companies it remains business as usual. Some of the companies in which we have invested have reported in the past quarter and their performance is worth noting. Woolworths' reported earnings have increased 60%, and they hoisted their dividend by 40%. AECI increased earnings per share by 32% and raised dividends by 29%. Kersaf and Avmin both reported substantially increased earnings and continue to have attractive prospects.

While we make apologies for having to report the decline in value of our client portfolios, we ask investors to note that we have once again outperformed the market. This retains intact our long-term track-record of continual out-performance of the overall market.

We have little ability to predict short-term movements in the currency, commodity prices or the stockmarket. However, as is evidenced by our track-record, we are assured of our ability to assess the long-term prospects of individual companies. Our strength lies in selecting shares which will deliver superior long-term returns. It is in this area that the bulk of our endeavour is focused allowing us to invest, with confidence, the capital you have entrusted to 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

NORTHSTAR

ASSET MANAGEMENT

US market S&P historic Price to Earnings Ratio – 1960 to March 2003

Source: Northstar Asset Management / HSBC

Reported US company earnings have been manipulated and flattered. The order of magnitude is all that is in question. That the price to earnings ratio on US stock markets is understated is axiomatic. The lower this ratio, the less expensive the market. The red line on the above chart reflects the reported and understated P:E of the US market. Self-evident is how expensive it became in the past few years and that it remains around double its long-term average.

A mere three years ago the US was said to have the Goldilocks economy – not to hot, not to cold; just right. Markets were soaring along with the US$. That has all changed; fraudulent accounting, investment bank research scams, 9/11, the war in Iraq, the global economic slowdown and possible deflationary consequences, the international debt hangover and the weakening US$ all contribute to the puncturing of the bubble of over-inflated global asset prices.

International private investors continue to take humbling losses. In the US, private investor redemptions are eating up the cash balances of domestic equity funds faster than managers are able to sell shares to bolster the cash levels. In Germany, the stock market recently dropped to 70% below its March 7th 2000 peak which makes this fall even larger than the 1930's crash.

Despite record monetary easing around the world and global bond yields at 40-year lows, share markets keep falling. The expectation of deflation, explains this. Equities went sideways in the 1960s and 1970s as inflation and bond yields rose. Equities and PE's soared in the 1980s and 1990s as inflation and bond yields declined. This decade, the shadow of deflation (and rising real debt burdens, credit crunches and buyers' strikes) has reversed the relationship between equities and bond yields. Both will continue to fall until policy makers aggressively and successfully reflate the world economy.

Given that, at 0.75% pa, the US is not too far away from zero rates; the Federal Reserve may be inching towards unconventional monetary policy options more quickly than anyone would have guessed.

The heroic US consumer has been robust mainly due to a low mortgage rate, which has fuelled record mortgage equity withdrawal thanks to a sky-rocketing house-price to income ratio. Both of these developments look unsustainable.

Six months ago we warned that "global pension liabilities will be the asbestos of the next decade". As markets continue to fall, this becomes self-fulfilling. Governments, hungry for tax income, forced companies with pension surpluses to suspend (tax deductible) pension contributions. In 2000 the UK the top 100 companies had defined surpluses of £80 billion pounds in their pension schemes. Now they have deficits of greater magnitude. Several FTSE100 companies have pension deficits which exceed the company's market value. This shortfall is not immediately due; it will over the years ahead, eat away at company profits as some earnings are diverted to under-funded schemes.

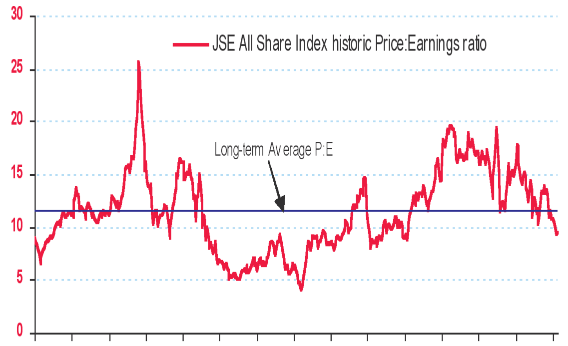
Pension liabilities are long-term debt and add to the debt overhang of companies which overextended themselves in the heady 1990's. This increased debt burden has lead to many companies' credit worthiness being downgraded. This increases the cost of (re-)financing that debt. That it is a vicious circle is all to plain to see. Only a substantial and prolonged rally in the equity markets will get these companies out of this hole.

Were the markets to sustain a rally, pension administrators are more likely to sell into any strength and so place something of a cap on their prospects. When these administrators have finished their selling of equities, in order to reduce risk in their pension schemes, it will be the ringing of the bell that the markets have bottomed and that they will move higher from that level.

NORTHSTAR

ASSET MANAGEMENT

SA market JSE historic Price to Earnings Ratio – 1960 to March 2003



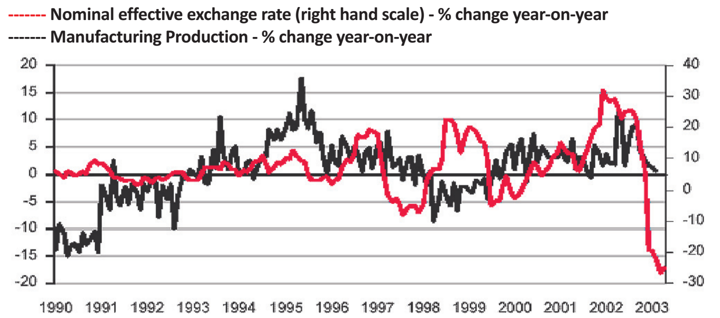
Source: Northstar Asset Management / HSBC

The SA market re-rated in 1990 when the country rejoined the international community but now trades at a discount to that level and its long-term average. While a SA risk premium is appropriate the prevailing differential points to the SA share market currently offering significant value.

Over the past twelve months the JSE Index for Large Capitalisation companies fell by 27% while the Small Cap. Index rose by 11%. Capturing a large portion of this relative value re-adjustment was part the reason that we outperformed the market by 30% in 2002. Our focus on fundamental value is now steering our portfolios to larger capitalisation companies which are trading at a discount to intrinsic value and at increasingly attractive absolute and relative valuations.

In raising our exposure to the large capitalisation companies we are increasing the alignment our portfolios with our benchmark, the JSE All Share Index. In so doing we reduce, for the foreseeable future, our ability to outperform to the extent we did in 2002. The opportunity to add these large cap companies at inherently low prices enhances the probability of our client's portfolios continuing to produce satisfying returns all-be-they, for the near term, more closely correlated to those of the market.

In 2002 the Rand recovered the entire decline it suffered in 2001 and improved some 28% against the US$. Since the start of 2003 the Rand gained further against a weak US$ and on a trade-weighted basis.



Source: HSBC

While predicting the future value of the Rand remains an impossibility, the rand has now overshot on the upside as much as it did on the downside in late 2001. This places pressure on exporters facing weak global demand in a slowing world economy. A more robust domestic economy will partly alleviate this, but local manufacturing activity will be impacted.

After a decade of dismantling trade barriers and tariffs, the SA economy is increasingly open. The massive rise in domestic inflation to 14.5% in the past year is largely attributable to the weakening of the Rand in 2001 as domestic producers compete directly with imports. To curb inflation, local prime lending interest rates were pushed to 17% pa.

Prior to the currency collapse, the inflation rate stood at around 6.6% pa. We expect inflation to revert from its 2002 high to 6% and possibly go lower should the currency hold onto its recent gains. As inflation trends lower there will be considerable scope for interest rate reductions.

This favours the domestic economy and asset markets at a time when the global economy and markets are uninspiring. This counter-cyclicality enables us to actively manage client portfolios to take opportunity of these changes.

As we have argued, many South African shares are cheap and offer sound prospects. That they may yet become cheaper always remains a possibility. But whatever eventuates it will provide opportunities for us to continue to build sound portfolios which will continue to deliver pleasing returns.