Client Letter 24 October 2003

Quarter End: 30th September 2003

Dear Investor

The three largest companies by market capitalisation on the Johannesburg Securities Exchange are the primary Rand hedge companies listed in SA. Anglo American Plc, BHP Billiton Plc, and Richemont Securities DR. account for over 30% of the total market value of the JSE. Their prices tend to rise when the Rand falls, and vice versa. Over the past 18 months the share price of all three companies fell by an average of 38%.

These companies have been under-represented in our clients' portfolios by way of a 10% presence in Anglo American. After having sold our clients' Rand hedge shares at much higher levels in 2002, our subsequent exposure to Anglo American Plc. was accumulated well below current prices.

By actively managing our clients' portfolios, we side-stepped the very substantial losses that were incurred by many investors. While these behemoths and the JSE were falling, our clients' portfolios appreciated in value. Through rigorous research and share selection we were able to identify and invest in then undervalued companies which offered prospects of both capital preservation and appreciation.

In the past quarter we have raised the cash holding in our clients' portfolios. This follows strong gains on certain of our preferred shares and as their commensurate attractiveness declined, their percentage weighting in clients' portfolios increased disproportionately.

We will re-invest the proceeds of recent sales in shares of selected companies with sound long-term businesses but whose immediate future is arduous, such as many of the exporters or companies with offshore operations. The near-term earnings of these companies will disappoint as the strength of the Rand places them under pressure.

However, these depressed earnings will afford us the opportunity to purchase, on behalf of our clients, quality companies with international earnings, at very low prices. If, with lower interest rates and in response to a burgeoning negative trade balance, the Rand weakens, shares of these companies are likely to handsomely reward patient long-term investors.

As the dynamics which influence companies' prospects change, we adjust our clients' portfolios. Not with the intention of short-term speculation, but rather with the intention of reducing risk and increasing potential future returns. In so doing we are confident that we will continue to deliver attractive returns which are greater than those offered by the overall stockmarket and at a level of risk considerably lower than that of the market.

Yours sincerely

Alexander Otten

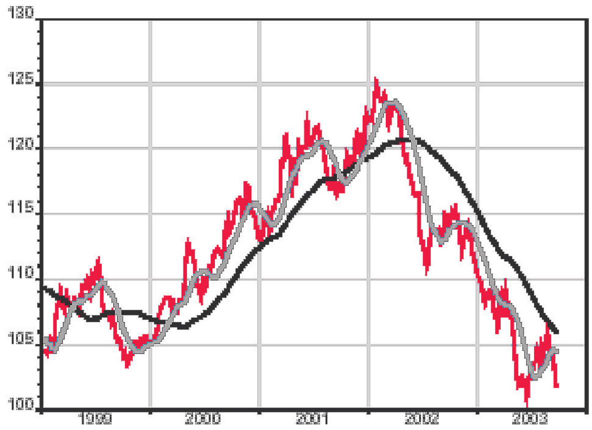
Alexander Otten

NORTHSTAR
ASSET MANAGEMENT

Market Report 24 October 2003

Quarter End: 30th September 2003

US dollar trade weighted value – 1999 to present



Source: HSBC International

Recent data releases signal that the global economy is in the early stages of a synchronised recovery. While global markets have started discounting the recovery, there is still a marked degree of uncertainty and skepticism. Japan, the world's second largest economy, is turning a corner and China continues to grow apace. They provide support for rising commodity prices, while a weakening US dollar will add further impetus which can only but favour SA producers.

Despite the beleaguered labour market, US consumers have expended their debt levels on the back of windfall tax rebates and prevailing low borrowing costs. Consumer spending is underpinning the economic recovery in the US, and with the economy starting to strengthen, strong consumer spending will probably continue. At least until interest rates are in creased once the economic recovery has taken hold.

In recovering from one of the shallowest recessions on record, the US economy grew by 3.3% in the second quarter of 2003. Government spending on the war in Iraq contributed 44% to this GDP growth. Iraq related spending may spill-over into the third quarter while corporate capital expenditure and inventory restocking will ensure impressive GDP growth in that quarter.

To stimulate their economy, US administration officials continue to talk down the US dollar. Although the US dollar has declined by twenty percent on a trade-weighted basis, we are concerned that it remains overvalued, and at risk of further depreciation.

Record low US Federal Reserve interest rates of 1%pa are likely to persist until the labour market shows a marked improvement.

Should the recovery take hold, and depending on its' strength, interest rates will rise to more normalised levels. Unwelcome by the highly indebted US economy, higher interest rates will ensure that the recovery is anemic.

Gold remains primarily a play on a weaker US dollar, with the prospect for further weakness in the currency creating a particularly favourable environment for the gold price. Gold is unique in being a good hedge against either deflationary or inflationary conditions while negative real interest rates imply negligible opportunity cost to holding gold.

It is crucial to differentiate between the prospects of the overall economy and of the markets. The key driver of the recovery in global, and especially US, growth is the unprecedented stimulus which has been provided by a combination of monetary and fiscal policy. We feel that this carries considerable risks for the future. Our confidence in a recovery should not be confused with enthusiasm for the long-term outlook for the US economy.

Financial markets have benefited from an upward movement which creates a momentum of its own for investors ever fearful of missing the boat. Negative real interest rates provide little incentive to hold cash.

Ever forward looking, US markets have anticipated the recovery and have risen from their lows. They remain around thirty percent below their highs of 2000. Some suggest that these markets will continue to recover. However, we are unconvinced that economic fundamentals warrant a full near-term recovery and remain of the opinion that large gains from current levels are difficult to justify on the basis of intrinsic value.

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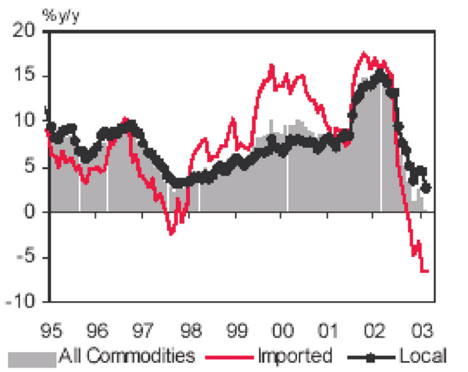
SA Producer Price Inflation - % change year-on-year



Source: Stats SA & BJM Research

The Rand continues to be the primary influence of the SA stockmarket. Almost half of its fifty-percent recovery to the rampant US dollar of late 2001, is attributable to a weakening of the then (and still somewhat) overvalued US dollar. Despite the Rands' recent rise, it remains below the trade-weighted high it reached in April 2003.

This has underpinned the decline in SA inflation and, more importantly, in inflation expectations. The Reserve Bank is provided opportunity to reduce interest rates. Real rates have risen as falls in the rate of inflation have outpaced the Bank's easing of interest rates.

Recent months have produced further evidence of the sharp slowdown in South African economic growth and export led manufacturing production has dropped markedly.

The data shows a disparity between domestic demand, which is growing healthily, and weak externally-generated demand.

The decline in exports is raising the ratio of imports to gross domestic expenditure. Importantly, exports are also hurt by the weakness of the global economy. Specifically the UK and Euroland, which account for half our exports, have decreased their imports over the past year by 10% and 20% respectively.

A weaker rand, on its own, is not a panacea for export revival and job creation. Rather, until the global growth tide comes in, SA export volumes will be prone to weakness.

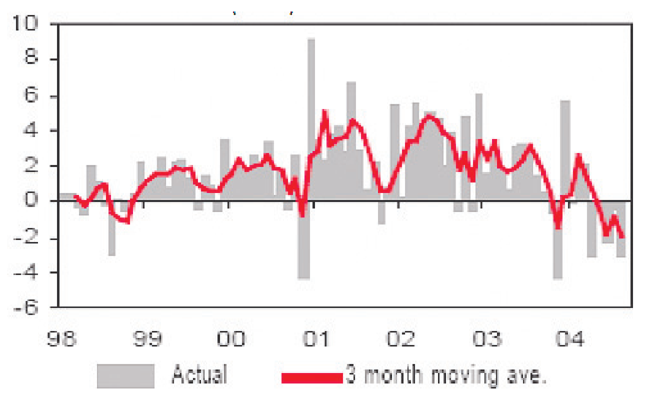
As export dependent companies report weak results, their fall from favour will allow astute investors to purchase selected shares, with sound prospects, at low prices. As the global economy normalizes, patient investors will be well rewarded.

While precious metals' prices remain high and interest rate differentials remain relatively attractive the Rand is likely to remain strong. In time, the impact of the cumulative current account deficit and lower interest rates will see a reversal for the Rand as the reward for investing in the currency diminishes, while the risk rises.

In terms of Price Earnings valuations, the JSE All Share Index has recovered from a low of 8.6 in late-April to its current level of 11.7. This means that SA shares are no longer as significantly undervalued as a few months ago, but equities are by no means expensive. Additional interest rate reductions, rising commodity prices and an accelerating global recovery will lend support.

We do not foresee on-going market-wide rerating of SA shares. We anticipate more of the stock specific relative price movements which have characterised our market for the past few years. We believe that in the coming years our stock-picking approach and skills will continue to be more important drivers of investment returns than broad market movements.

JSE Price Earnings Ratio – July 1983 to October 2003



Source: BJM Research