NORTHSTAR

ASSET MANAGEMENT

Client Letter 18 January 2003

Quarter End: 31st December 2002

Dear Investor

After the turmoil in the financial markets in 2002, we emerge with all of our client's portfolios having gained around twenty-percent as compared with a loss of over ten-percent in the overall market. That we have yet again outperformed the market is satisfying, but it is not an end in itself.

Our philosophy is to buy good companies at reasonable prices and, should they become fully valued, to then sell them. We are not trying to second-guess the market. Rather, after rigorous research, we seek to prudently allocate capital while assuming a level of risk considerably below that of the overall market.

For us, there is no point in chasing performance in the short-term, as the only product that Northstar has to sell is our superior long-term performance track record. On occasion, we may under-perform the index. But, this would worry us a great deal less than were we to under-perform over the long term.

Our portfolios have maintained a bias to local companies and to selected gold counters. Both views have proved to be rewarding for our clients. Many of our selected local companies reported strong earnings growth and the price of gold rose in response to the implementation of expansionary policies in the global economy. Our decision to reduce risk by moving from the unhedged to the hedged gold producers was also judicious as our preferred shares outperformed.

Since selling all-but-all of our dual-listed rand-hedge holdings a year ago when they became overpriced (see our Dec 2001 report) we have recently been rebuilding exposure to Anglo American at substantially lower, and more fundamentally attractive, levels.

Naspers is now one of our top five holdings. This is on account of the company's restructuring as reflected in the successful acquisition of its subsidiaries and as a result of an almost forty-percent increase in the share price since we built our position earlier in the year. While no longer as cheap as when we bought it, we believe that the company continues to offer attractive long-term prospects.

While international investor expectations have not been lowered sufficiently to cause global markets to fall to levels offering absolute fundamental value, the South African market presently offers fairer value. Through our on-going research and analysis we are constantly finding interesting stock-specific investment opportunities. We believe that our strategic focus on fundamental value combined with our active management will continue to yield attractive long-term returns for Northstar's clients.

Yours sincerely

Alexander Otten

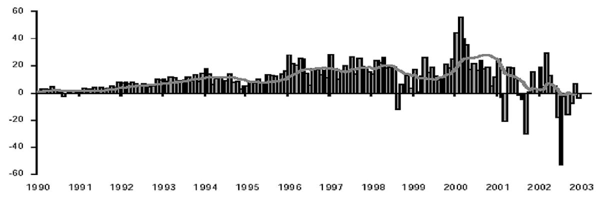
Alexander Otten

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

In the last quarter western stockmarkets, which had been down 48% from their March 2000 peak, experienced something of a bounce. Such bounces are invariably large or long enough to convince most investors that the market has seen its bottom. Our longer-term perspective is less encouraging because western equity valuations have not experienced a full cycle contraction given the extent of their overvaluation at their peak.

Net Incomes to US Equity Funds – US$ billions



Source: Merrill Lynch Int.

In March 2000, when the bubble was at its peak, investors pumped US$55billion, the largest monthly inflow ever, into US equity mutual funds. In July 2002, after the dramatic bursting of the bubble, these funds had their largest ever outflow as investors withdrew US$53billion and, in so doing, realized significant losses.

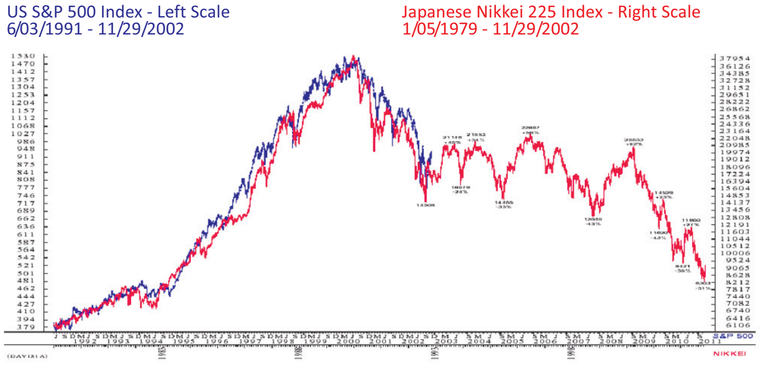
This irrational behaviour is commonplace in financial markets. In the last five months of 2002 investors redeemed more than US$90 billion from US domestic equity funds. 2002 will be the first "down" year for US equity funds since 1988.

While, in the last few years, many of the distortions of the 1990's have been purged from international markets, the process may be incomplete.

In the past we have criticized research analysts for being wildly optimistic. Many have now tempered their optimism and reduced forecasts. These revisions are not yet aggressive enough to suggest that they have shifted to an overly pessimistic position and one which would all-but guarantee strong advances in the market and prove them, yet again, wrong.

The US would have had a very serious recession were it not for the plunge in inflation which allowed the Fed to balloon money supply and cut interest rates dramatically to 1-2%. Corporations were able to refinance some of their $5 trillion in debt at sharply lower interest rates.

1991-2002 S&P 500 Index vs 1979-Present Nikkei 225 Index



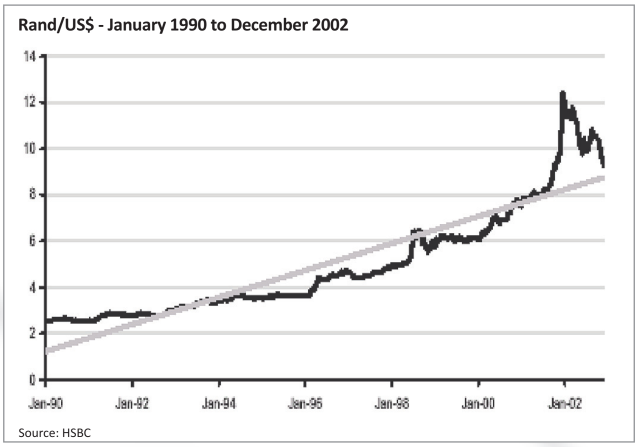
Source: Ned Davis Research

However, nine of the largest 12 U.S. bankruptcies ever occurred in the last two years. These totalled $359billion. And, personal bankruptcies in 2002 were at record levels, surpassing 2001's prior record. Plainly, debt is not just about servicing the interest payments. In this very low inflation/low-growth environment, the inability to generate sufficient return to pay the interest, let alone repay the capital, is proving the borrowers' undoing.

While market valuations in the US and in other markets have declined, many remain high. The US PE ratio stands at 31 as compared with its peak of 46 in March and its long-term average of 16. Historically, tempered by the cathartic effects of thereof, US markets emerged from recession on an average PE of 7. That current valuations remain more than four times this and double their long-term average encourages us to believe prudence remains the better part of valour.

NORTHSTAR

ASSET MANAGEMENT



After the Rand's exceptional falls, the currency is in process of regressing to its mean rate of depreciation. In so doing, the Rand's period of strengthening is drawing to a close. Further appreciation is likely to prove damaging to the economy.

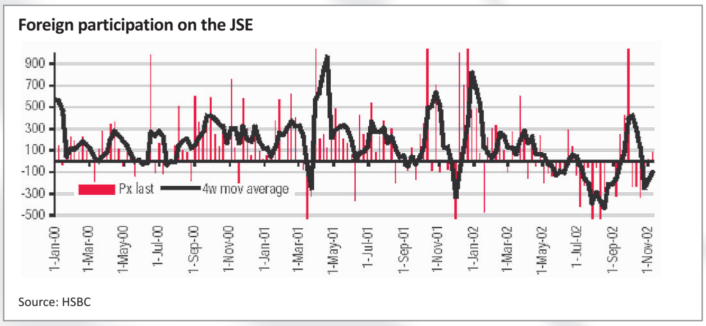
In the absence of any shocks, the real exchange rate should not experience any substantial weakening. However, by definition, this implies depreciation in line with inflation differentials for the nominal Rand. Over the long-term, structural impediments, such as the high unemployment rate and the HIV/AIDs pandemic, are likely to cause the rate of decline of the Rand to exceed the inflation differentials.

The stronger Rand is good news on the inflation front and consumer price increases are expected to fall sharply from the 12.8% recorded in November 2002 to 5.9% per cent by end 2003. On the back of this the Reserve Bank will probably cut interest rates by 3% in 2003.

After their hasty third quarter withdrawal, in response to the leaked mining charter, foreign investors are taking some comfort in the government's firefighting efforts.

2002 saw significant declines in many of the large capitalisation shares on the JSE. Anglo American, Richemont and Anglo Platinum, representing 25% of the benchmark JSE All Share Index, declined an average 33%.

This compares to a price decline of 11% for the JSE Index. These dramatic price declines contributed to the outperformance of Northstar's portfolios over this period as we had reduced to virtually zero our clients' exposure to these shares. For the year, our clients' portfolios returned a gain of around 20% versus a loss of 11% for the JSE Index.



The decline in price of many of the large capitalisation shares means that we are now finding increasing value in the broader South African stockmarket. Even the dual-listed shares such as Anglo American (now a top five holding) has been reintroduced to our portfolios after having been repurchased at lower and more fundamentally attractive value levels.

In the past year, many of our preferred shares have outperformed the index by 50% or more. This re-rating of our selected shares taken together with the de-rating of the overall market reduced the extent of expected future relative outperformance from positions in these stocks and makes it unlikely that we will outperform by a similar margin from here.

Notwithstanding, we are optimistic and expect attractive real returns for our clients' portfolios and we believe that, as in the past, Northstar will continue to provide solid returns at risk levels well below that of the overall market.