NORTHSTAR
ASSET MANAGEMENT

Client Letter 20 July 2006

Quarter End: 30th June 2006

Dear Investor

The past quarter saw an increase in volatility in global markets. Northstar clients will know that we have, for some time, been anticipating a correction in our market. Although the overall stockmarket index ended the quarter little changed from the start, within the market there were significant gains and losses produced by the various sectors and by individual company shares.

Prior to the turbulence in the market, we had reduced our clients' largest weightings and exposure to more vulnerable shares. The pull-back in prices allowed us to begin to pick up exposure in a few quality companies whose share price had been oversold.

We would have been pleased to use the decline in the market to add more to recent value investments such as Omnia Holdings - highlighted in our last market report. Unfortunately, Omnia's share price declined far less than the overall market and closed the quarter with a gain of 14%, and is presently 40% higher than where it started the year. Consequently, we were disinclined to chase up the price when other solid companies were being offered at more attractive discounts.

While the volatility may cause discomfort to some, as disciplined investors, it affords us a scarce opportunity to rebalance portfolios and to pay abnormally low prices to acquire positions in usually expensively rated companies.

The decline in the rand has been the most significant recent influence on the market. Experience has taught us that when the currency declines, the initial beneficiaries are the large dual-listed shares whose price is made on foreign stockmarkets and in foreign currencies. However, these are not the companies which, in time, gain most from a decline in the currency.

That strategic advantage lies with those which have the highest proportion of their costs in rands and their earnings in foreign currency. Companies such as Sasol, Northam Platinum, Impala Platinum, Harmony Gold, Anglo Platinum and Anglo American are ultimately most advantaged by a weaker rand.

In prior correspondence, while building positions at significantly lower prices, we have drawn attention to Northstar's clients' substantial exposure to these companies.

The combination of the weaker rand exchange rate and the higher dollar commodity prices should allow them to grow earnings at a rate well above that of the overall market. As these are reported, we expect the market to re-rate these companies' shares to reflect their enhanced profitability and for our clients to benefit meaningfully from this.

Yours sincerely

Alexander Otten

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Market Report 20 July 2006

Quarter End: 30th June 2006

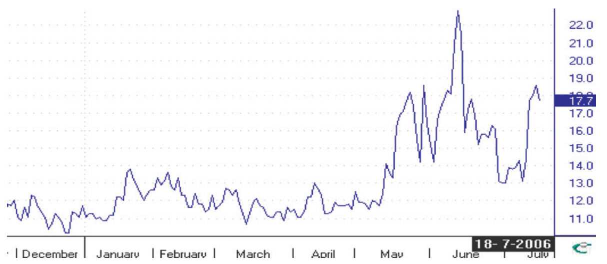
As global economic growth gains traction and the threat of inflation replaced that of deflation, central bankers around the world are raising interest rates from abnormally low levels. The measure of their success will be the ability to normalise rates without derailing economic growth or allowing inflation to slip its leash.

When Allan Greenspan was Chairman of the US Federal Reserve Bank market participants, familiar with his deft touch, were reassured. On Greenspan's retirement little known Ben Bernanke recently assumed the chair. Bernanke needed to reassure investors that he shared Greenspan's commitment to stable growth.

However in May of this year investors, accustomed to the central bankers' largess of cheap money and complacent of risk, were unsettled when Bernanke suggested that US interest rates may have to rise to somewhat higher levels than the market had anticipated.

Suddenly all bets were off as the investors reworked assumptions. Higher global interest rates, higher debt servicing costs, lower consumption, a stronger dollar and ultimately slower world economic growth had to be factored in. As shown below, the price of risk doubled as aversion replaced complacency.

Chicago Mercantile Exchange VIX Volatility (Fear) Index – 2006

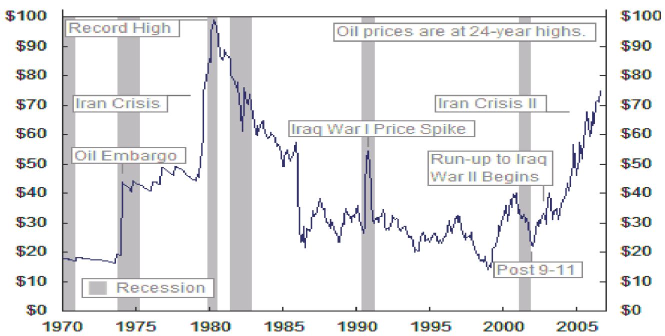


Source: Northstar Asset Management

A flight to the 'safety' of the US dollar, further compounded by anticipated higher yields, encouraged the unwinding of massive positions which had been based on the contrary assumptions. Scrambling for the exits, investors sold as indiscriminately as they had bought into the "next big thing" - emerging markets, precious metals, commodities and hedge funds.

It was an accident waiting to happen. It was more the fault of lazy investors than Bernanke. When he returned to reassure investors, the market managed a belated rally but the mood had changed and the scalded remained sidelined. Ironically, just as it has been under priced before, risk is probably overpriced now as the danger of slower growth with higher inflation has been exaggerated.

Oil price - US$ per barrel (inflation adjusted) – 1970 to June 2006

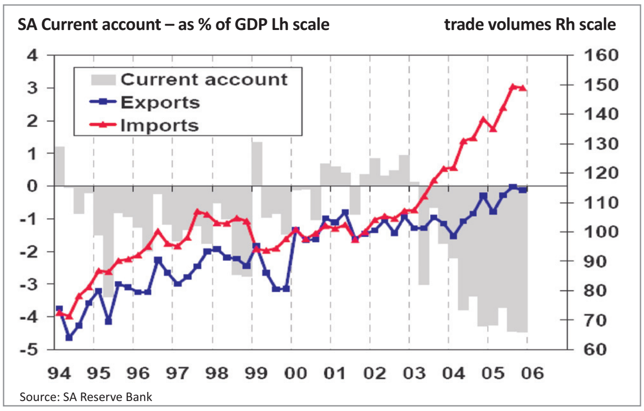


Source: Merrill Lynch Int.

The oil price has risen by 27% since the start of this year and remains stubbornly high. This strength is mainly the result of strong demand due to sustained global economic growth. China is importing 16% more oil than it did just one year ago and, after Japan, is now the world's second largest importer.

Previous peaks have been the result of supply uncertainty from the Middle East. The region's current crisis is further underpinning the price. Although still below its all time highs (in real terms) of 1980, the correlation between an oil price spike and a recession in the US (gray bars in chart) warrants reflection.

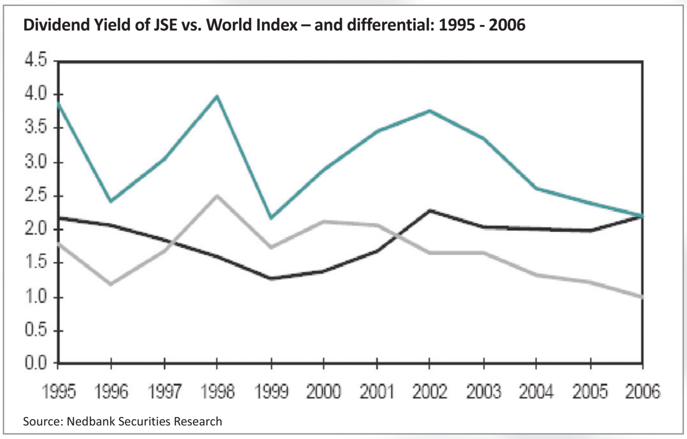
The South African markets were not immune to the volatility which affected global markets in May and June. While the overall stockmarket staged a quick recovery on the back of commodity shares; banks, property stocks, retailers and interest sensitive companies saw their shares end the quarter with significant losses.



Despite this realignment of risk premium, South African shares are not cheap and clients should temper their expectations of near term price gains in the overall market. The investing landscape is in a state of flux and the market is now much more a research driven share pickers' market than one in which the rising tide lifts all boats.

Reserve Bank unexpectedly raised local interest rates by 0.5%. It appears that this was as much a response to the emerging market volatility as it was to the very poor current account deficit data released at that time. While SA exports have remained solid, imports of consumer (as opposed to capital) goods has given cause for concern.

Northstar's clients continue to have overweight exposure to precious metals, oil, and basic resources. Companies which have rand costs and foreign currency revenues will benefit the most from firm commodity prices and a weaker rand currency. The impact of this leverage on this group of companies is evidenced by Northam Platinum's recent announcement that earnings per share for the year ended 30th June 2006 will be R3.10; nearly three times the R1.07 per share that the company earned in its previous financial year.



Platinum mining companies, as a sector, continue to be custodians of the largest sector allocation of our clients' capital. By our calculations, for at least the next few years, these companies will enjoy significant further earnings growth and, despite their shares already having made substantial gains in price, they continue to offer upside value and downside protection. Much the way we prefer to invest our clients' capital.

While we are expecting significant increases in dividend from local commodity producers, the same cannot be said for much of the rest of the market. By way of a measure, the dividend yield on the JSE suggests that it is fully valued compared to world markets.

Although the overall market may be relatively fully priced, within the market we continue to find opportunities offering compelling value. Through our share selection we are confident we will continue to add value and reduce risk on your behalf. The compounding effect of our above average annual returns creates meaningful wealth for our clients and this remains our core objective.