NORTHSTAR
ASSET MANAGEMENT

Client Letter 21 July 2008

Quarter End: 30th June 2008

Dear Investor

In the first six months of 2008 global stockmarkets have produced their weakest first-half performance since 1982 - as reflected in the Morgan Stanley MSCI index of world stockmarkets. In the year-to-date, US and European markets are down by over 20% and speculative markets such as India and China have fallen by more than 35% and 50% respectively.

Somewhat extraordinarily, in the past six months, the resource-laden Johannesburg Securities Exchange (JSE) All Share Index (ALSI) gained 5.0%. However, behind this positive façade, we note that local resource shares appreciated by 33% while financial shares declined by 25%. Again it was the largest and most liquid companies which lead the resource charge as global institutions and investors sought to increase their exposure to the currently 'hot' sector. Inevitably, the profound re-rating of the relative valuations which the market is applying to the respective asset classes provides astute investors with significant opportunities.

That these are difficult times in the financial markets is evidenced by the fact that 57 investment management companies, with which we share the 'General Equity' investment category, have, on average, returned -9.2% over the past 1 year and 83% over the past 3 years. They have, on average, underperformed the stockmarket by 16.4% over one year and by 32% over 3 years. On account of the recent spike in the price of Anglo American and BhpBilliton, which together account for over 33% of the JSE ALSI, not one general equity manager outperformed the market in the past year. Of the 57 management companies surveyed, Northstar came third and was one of only 7 asset managers to produce a positive result over the past year. Our three and five year out-performance figures make Northstar the only manager to consistently hold a top 5 position in all of these time periods.

As value orientated investors these are both the best of times and the worst of times. They are the best because some companies have had their share prices driven down to levels where they offer deep intrinsic value. And, they are the worst because some already inexpensive shares continue to be marked down, while many expensive shares persistently become even more expensive. This is not unlike what occurred during the late 1990's during the inflating of the NASDAQ bubble, which was equally testing of our investment resolve. Fortunately, as long-standing clients will recall, the unwinding of that bubble proved to be extremely profitable to our clients.

In challenging times such as these we continue to rigorously apply our investment philosophy which has served our clients so well over the past twelve years. With many companies having seen their share prices fall 40%, 50% and even 60%, they are closer to the bottom than to the top. In the main we have avoided these companies but, in a few instances, are beginning to find compelling value where investors have panicked and the good has been thrown out with the bad. We have no urgency and will, when appropriate, build positions in our clients' portfolios in those companies which offer the most compelling long-term value.

While turbulent markets may be unsettling for private investors, we have no doubt that the application of our quantitative, value-driven investment philosophy will over time, as in the past, continue to produce pleasing returns for our clients.

Yours sincerely

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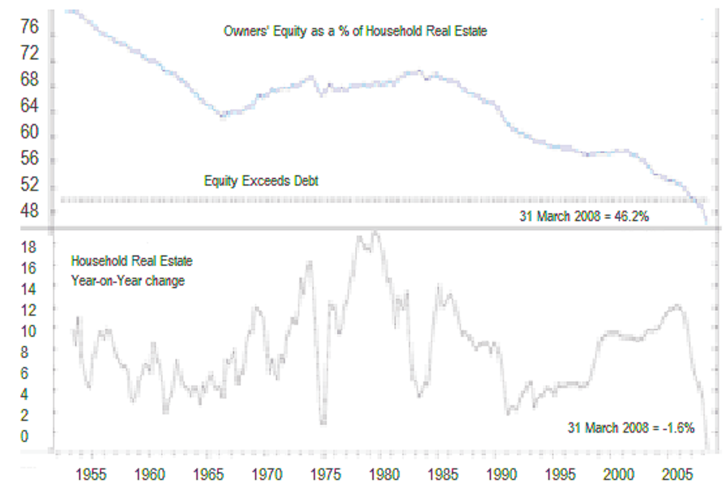
American householders have, over the past 50 years, been steadily reducing the amount of equity they own (as opposed to that portion 'owned' by the bank, by way of a mortgage) in their own homes. Post the 2001 stockmarket decline, we frequently commented how homeowners were borrowing against the rising value of their properties in order to maintain their lifestyles.

Average US homeowners equity vs. yearly change in average US house price 1950 to 2008



Source: Ned Davis Research Inc.

From start 2000 to end 2007, the price of the average US single family home doubled. However, much of the wealth this created for homeowners has been squandered as they binged on borrowing to the extent that they have, over the period, reduced their average equity stake in their own home from 58% to 46%.

The recent, and ongoing, decline in US house prices further erodes the homeowner's portion of the equity, while that growing portion owned by the bank needs to be serviced at a now significantly higher rate of interest. This, combined with higher food inflation, soaring energy prices and wobbly stockmarkets, is reason enough for the US consumer to moderate their behaviour.

The sub-prime crisis, which resulted from irresponsible mortgage lending, and the on-selling of these loans, has resulted in global financial institutions taking losses and writing down asset values by over $450 billion since the crisis began in January 2007.

As house prices continue to slide, this problem can only get worse. So, despite the periodic bouts of optimism, the truth is that the purge is by no means complete. What is true is that we are closer to the end than to the beginning and, in the case of asset prices, closer to the bottom than the top.

In addition to the sub-prime problems, Anglo Saxon economies are being hit with higher inflation and lower growth. For fear of possible resultant stagflation, we believe that the central banks are reluctant to tackle both of these problems simultaneously.

We expect the initial emphasis to be on preventing the economies from falling into too deep a recession, and to allow individuals to repair their over-leveraged balance sheets. Thereafter, the focus will shift to squeezing inflation from the system through the application of higher real interest rates.

Such a strategy will prolong the period of elevated inflation which will have the advantage (for the indebted) of allowing a greater portion of the outstanding debt to be monetised.

Bond markets will need to make the painful adjustments to compensate lenders for the higher-for-longer inflation. Equity markets are assured to be the principal beneficiary of this process. Although they too have recently been enduring the uncomfortable re-pricing required to reflect the normalisation of company profits as they decline from unsustainably elevated levels.

All of this should be seen as a process, some of which will not be easy, but all of which will produces unique risks and opportunities for us to avoid and exploit for the benefit of our clients.

Market Report 21 July 2008

Quarter End: 30th June 2008

In June stockmarkets experienced one of their worst months in a generation. Oil's relentless rise raised the spectre of accelerating inflation, rising interest rates and a stalling global economy. Little wonder stock prices lurched with each new high in oil.

Mining and resource companies - which are currently very much in fashion - account for 60% of the ALSI. At 32%, more than half of this comes from Anglo American and BhpBilliton.

Around four years ago entire mining and resource sectors constituted less than 35% of the ALSI. At that time we found attractive value in the sectors and built significant positions in these, and related, companies on behalf of our clients.

After their recent run we are increasingly hard pressed to find value in Anglo and Bhp. Consequently, our clients are now underweight the sector and have all but no exposure to these two companies. Anglo and Bhp may enjoy further gains. Recent share price movements show that we were, characteristically, early in reducing our clients' exposure.

We view their share prices being driven more by momentum than by fundamental valuations. Consequently, if enough buyers chase the shares, expensive can become very expensive. Our empirical analysis suggests that investors are pricing in an awful lot of good news for an awful long time into these companies. Experience tells us, things do not always work out that way.

AngloGold Ashanti share price (lhs) vs. Rand gold price (rhs) - July 2006 to present

Source: Northstar Asset Management

In the past two quarters we built up a sizeable position, at an average price of around R250 per share, in our clients' portfolios in AngloGold Ashanti Limited, and participated in the recent rights issue to further bolster that position.

We believe that the gold price will benefit from the higher-for-longer global inflation outlook, and recent top management changes at AngloGold has brought a new determination to restructure the loss-making hedge book and the company.

Over the past 2 years the Rand price of gold has increased by 60% from R4,500 per ounce to R7,200. In this period, AngloGold's share price has fallen by one quarter, from R350 to R270.

Much of the increased revenue generated from the higher gold price has been eroded by higher input costs. However, the main reason for the decline in the share price has been the exasperation of shareholders at the company's vast hedge book which precluded full participation and benefit from more-than doubling of the Rand gold price over the past 3 years.

The bulk of the company's recent R14billion rights issue will be used to eliminate almost half of its hedge book and will significantly reduce the 20% discount to spot gold prices currently received by AngloGold. Further asset sales of non-core West African gold and various base metal and uranium operations are expected, and the proceeds thereof will be used to further de-hedge the company.

The poor sentiment towards the AngloGold Ashanti will be reversed once it begins to report the enhanced earnings which will result from the restructurings. At that time we expect the 53% discount at which the company currently trades, relative to senior North American producers, will narrow providing an additional impetus to AngloGold's share price.