NORTHSTAR
ASSET MANAGEMENT

Client Letter 19 October 2006

Quarter End: 30th September 2006

Dear Investor

While quarterly results are of little statistical significance we note that, in the past quarter, our clients' portfolios again outperformed the overall market. More relevantly, this further extends the long-term wealth creation and outperformance which has accrued to our clients.

In the past quarter, we have made minor changes to our clients' portfolios. One such change was to sell our clients' stake in Western Areas whose price had been driven up by over 150% in the last year by rival would-be suitors Harmony Gold Mines and Goldfields. The proceeds of that sale was redeployed in other, more attractively priced, precious metal companies.

We have long argued the case that the rand was overly strong and have repeatedly advised our clients of our shunning interest rate sensitive and import dependent companies. For over a year we have been building positions in our clients' portfolios in companies which are less sensitive to the interest rate cycle and which would benefit from a normalisation of the exchange rate to lower levels.

In the past six months the rand has declined by over 20% and short-term domestic interest rates have been increased by 1.5% - with higher interest rates yet to come. Those investors who had become complacent were severely wrong footed by the timing and magnitude of these changes.

We believe that as the impact of higher interest rates and the lower exchange rate feed into the economy, companies' will report earnings which will surprise investors on both the upside and the downside. As the market digests these results, and investors revalue the shares accordingly, the difference between the make up of our clients' portfolios and that of the index or the average equity fund will become apparent. And, our clients will reap the rewards of that difference.

Yours sincerely

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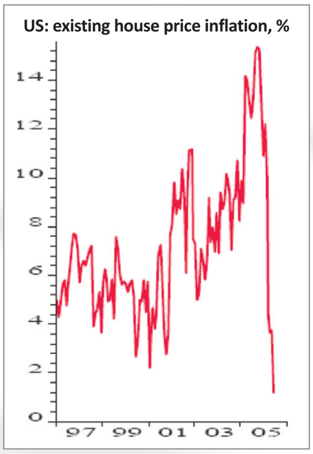
Global economic growth is slowing as central banks around the world have been raising interest rates in order to throttle back the economic expansion and keep inflation in check. Central bankers' policy decisions are data dependent and consequently tend to overshoot. Most recessions bear eloquent testimony to this.



The jury remains out as to whether the economic landing in the US will be hard or soft. If the former, it will reverberate around the world and most evidently in Asia and the emerging markets. If the latter; global economic growth will moderate for a few quarters before accelerating again in 2007. Either way, in one year's time, US short-term interest rates will be lower than they are at present.

We have previously highlighted the substantial debt burden which the US consumers have assumed in their determination to maintain a lifestyle beyond their income. As a sector, consumers now represent a record 73% (up from 66% in 2002) of US GDP. Higher interest rates, exacerbated by a falling housing market, will curtail their ability to borrow and spend.

A declining US dollar makes exporters more competitive and protects against import substitution. US corporations' intent to maximise the situation is reflected in their aggressive increase in capital expenditure. This expenditure along with increased export demand, it is hoped, will take up the slack resulting from slower US consumer demand and will result in a more balanced US economy.

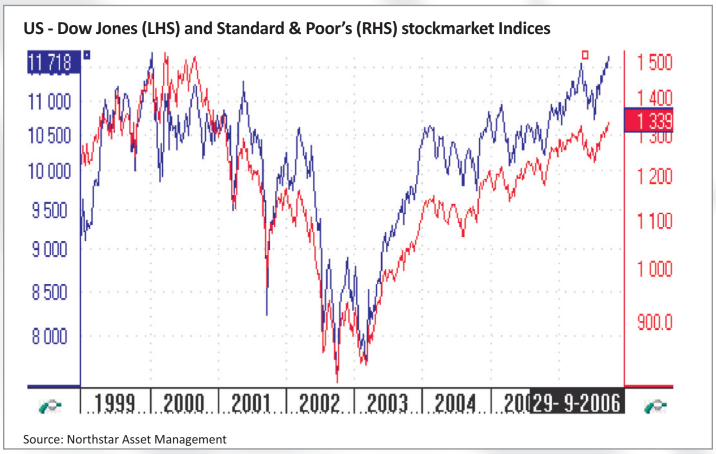
US corporations, in stark contrast to the consumer, are in great shape. Aggregate cash on their books stands at the unprecedented high levels of 9% of market capitalisation. In the last five years, companies have swung this from a deficit of -2% to a surplus of 2% of GDP. This is equivalent to a 4% increase in the national savings rate and is unprecedented in an economic expansion. Profits, as a % of GDP, are also at record levels.

In the past few weeks the financial media has made much of the US Dow Jones Index (DJII) finally breaking through levels last seen in early 2000 to reach record highs.

The Dow Jones Index, consisting of just 30 companies on an un-weighted basis, is far less representative of the overall US stockmarket than is the Standard & Poor's 500 Index which is made up of the top 500 listed US companies and allocates their participation according to their market capitalisation.

As evidenced from the chart, the narrow Dow Jones index may be making new highs but the broader S&P 500 index remains stoutly some 14% below its peak of 2000.

By most measures the US stockmarket is presently not expensive. In the past 5 years, corporate America has enjoyed significant earnings and profit growth while US share prices are largely unchanged from 5 years ago. However, investors seem not persuaded as to the sustainability of the elevated level of earnings and profits. Ultimately, time will be the arbitrator.



Source: Northstar Asset Management

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Rand vs. US Dollar exchange rate – January 2000 to date

Source: Northstar Asset Management

The dominant feature of SA's investing landscape has been the decline in the rand exchange rate. In the last 6 months the Rand has fallen by 22% to R7.50 to the US$. Interestingly, not dissimilar to its percentage depreciation over the past six years.

Despite the rand's correction from over-valued levels, investors on the Johannesburg Securities Exchange (JSE) have, over the past 6 years, enjoyed stellar returns. In US$ terms local investors have all but trebled the dollar value of their investments as compared to returns attained by US investors in their own stockmarket. Additionally, the JSE has outperformed the Morgan Stanley Emerging Markets Index.

Although the JSE All Share Index (ALSI) is the industry benchmark against which our performance is measured, our clients' portfolios currently bear little resemblance to makeup of that index or, for that matter, to the average general equity fund.

That is not to say that it is always like this. We do not seek to be different just for the sake of being different. However, if in our quest for value and opportunity we identify it away from the index, as is the case at present, then we are not reluctant to commit capital to these opportunities. Subject to our risk parameters; the greater our conviction, the larger the individual positions will be.

In the JSE ALSI the top 3 companies make up over 30% of the index; while in our clients' portfolios these same companies constitute less than 10% of their portfolio. Additionally, five of the ten largest companies in the JSE ALSI have not been selected for inclusion in our clients' portfolios. 'Big' is not necessarily safer or more profitable as attested by long-term Sappi or Didata investors.

For more than a year we have been building positions in clients' portfolios in our preferred companies which have rand based costs and US dollar denominated earnings. The size of these positions reflects our confidence that, over the medium term, these companies will be significant beneficiaries of a weaker rand.

JSE ALSI Index / US S&P 500 in US$ and MSCI SA / MSCI EM

Source: Investec Securities / Northstar Asset Management

Given our research and conviction led strategy, we do not mind when, such as now, our clients' portfolios differ from either the market or average equity fund. Indeed as long as, by our analysis, the risk of permanent loss of capital is lower, we prefer to be different. Being different only increases the likelihood of our producing results which differ from the overall market and the investing herd.

In the future, as in the past decade, we gratefully accept our responsibility of ensuring that Northstar's clients enjoy results which are, at lower than market risk, pleasingly different.