NORTHSTAR
ASSET MANAGEMENT

Client Letter 18 October 2007

Quarter End: 30th September 2007

Dear Investor

The past quarter saw volatility return to the market. In August, problems from the US sub-prime lending market reverberated around the world and resulted in a liquidity crisis. This caused the SA stockmarket, along with most stockmarkets globally, to decline by around 10%. In response the US central bank, and global authorities, acted aggressively to pump liquidity into the financial system. Their actions emboldened investors and, led by the most economically sensitive and speculative stocks, global share markets staged a remarkable recovery at the end of the quarter.

During this period of uncertainty we retained the defensive bias to our clients' portfolios and allowed cash balances to increase. As detailed in our prior quarter's commentary, we were pleased to exploit the volatility to add, at fire sale prices, to our clients' positions in quality companies such as Absa, RMB and Barlows when they were trading at, or near, their recent lows.

However, largely as a result of our caution, in the last 3 months we have underperformed the overall market. Despite this short-term performance lag, over the past twelve months our clients have captured all of the JSE's 33.9% gains and our longer-term significant outperformance record remains intact.

While we find it frustrating to not have added value in the short-term, we accept the underperformance as the price we are prepared to pay to preserve the substantially above-market gains which our clients have accumulated over the past decade and more. For us, protecting wealth from loss, is as important as growing it. If ever we do underperform we would always, as now, that it be because we hold too little risk, rather than too much.

The defensive nature of our clients' portfolios will stand us in good stead and, we have little doubt, will provide a solid foundation for us to continue to grow our clients' wealth in the years ahead.

Yours sincerely

Alexander Otten

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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
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In America access to credit is something of a birthright. The average US family currently has debt equal to 135% of its annual income. When interest rates are low, it is less of a problem. In the past 5 years the US Federal Reserve had raised short-term interest rates 17 times, at 0.25% increments, from 1% pa to 5.25% pa.

Higher rates increased delinquencies and drove those unable to access loans and mortgages from conventional providers to unconventional ones. These alternative credit providers calculated that by charging a slightly higher rate of interest, they would be able to profitably extend facilities to higher risk "sub-prime" borrowers.

The sub-prime lenders sourced funds from the commercial market and on-lent to risky borrowers at a premium. In order to maximise profits and recycle funds, these lenders packaged bundles of risky loans together and on-sold these bundles as bonds to investors and institutions seeking a slightly higher yield on their investment.

As the loans were off their books, the sub-prime lenders became less concerned about creditworthiness of the borrowers. Hence, more and more risky loans were extended right up to the NINJA loans (an acronym for loans extended to borrowers with No Income, No Jobs & no Assets). And, they wonder why it all blew up!

With over a trillion dollars of sub-prime debt outstanding, when delinquencies increased, banks decided to stop lending to the sub-prime lenders and investors discovered that the inherent risk in the bonds was far greater than that implied by the slightly higher yield which they received. As liquidity dried up, the sub-prime market seized and the crises split over to other markets.

In the equity market investors indiscriminately sold anything even vaguely related to the sub-prime sector. The reduced liquidity suggested that many of the potential private equity takeovers in the share market would not now occur and, as a result, prices tumbled and take-over premiums evaporated.

In response, the US Federal Reserve reduced interest rates by an unusually large 0.5% and joined central banks around the world in pumping even more liquidity into the global financial system than they did after 9/11. Reassured, investors returned to the market and aggressively bought the most economically sensitive and speculative shares, which had been hardest hit in the fallout, and pushed share markets back to their pre-sell-off levels.

Our local markets were also hit by price volatility. However, experience has taught us that prices change far more than value. Holding shares with deep intrinsic value ensures that price declines represent temporary, as opposed to permanent, loss of capital.

The robustness of the companies included in our clients' portfolios was again evidenced by the financial results of those that reported in the past quarter:

Impala Platinum, in the year to 30 June 2007, increased headline earnings by 75% and its dividend by 40%. Sun International increased earnings by 33% and its dividend by 38% in its financial year. One of our clients' largest holdings; ARM reported a 161% growth in earnings and a maiden dividend of R1.50 per share for the financial year to 30 June. Johncom grew earnings by 35% in their '07 financial year and FirstRand (which is controlled by RMB) increased earnings by 32% in the same period.

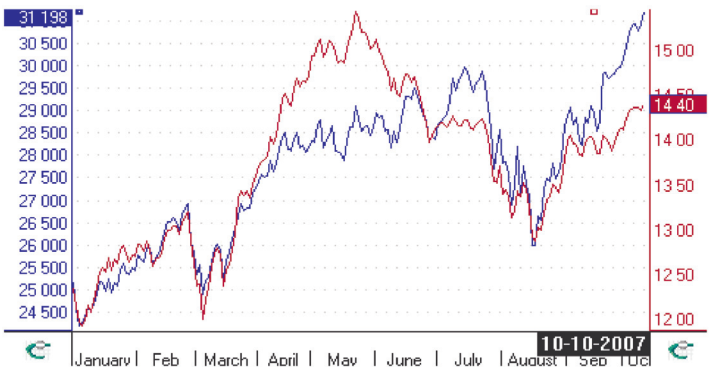
The slew of good news was marred by Harmony Gold announcing very disappointing results for the quarter. Costs per unit leapt by 49% as tonnage and grade yields fell. The CEO and CFO resigned and the share price fell by -18.6% over the last quarter.

Despite our serious disappointment at these results, we are comforted that even at these depressed levels, Harmony remains cash generative. Experienced and well respected senior executives have been appointed and incentivised and, as production tonnage normalises, so too will grade yields. Additionally, a number of promising projects, in which almost all of the capital costs have been made, are coming into production and their income streams will underpin the company's earnings. At current valuations Harmony trades at an understandable and, by our assessment, unsustainable discount to its peers and its intrinsic value.

More recently, the Johannesburg Securities Exchange All Share Index (JSE ALSI) broke above 30,000 for the first time. The advance in the ALSI has been driven by a few heavyweight resource shares. Anglo American and Billiton alone constitute 29% of the JSE All Share Index.

The Advance / Decline Line quantifies how broadly based a market move is. As shown below, the ALSI is 10% above its May peak and making new highs; while the ADL remains 10% below its May top.

JSE ALSI vs. Advance / Decline Line 2007



Source: Northstar Asset Management

This divergence indicates that the rally is narrowly based with only a few very large companies' shares making new highs while the majority shares listed are either treading water or declining in price. Although momentum investors may enjoy riding the wave, we, as value investors, are cautioned by such data.

Much as, in the late 1990's, we were unable to find value in most of the technology shares which were in fashion at that time, so too are we currently increasingly challenged to find value in the dual-listed behemoth commodity companies listed on the JSE.

These companies are reporting exceptional earnings growth, record profits, and are trading at record valuation multiples. We are yet to be convinced that future earnings are likely to grow by the same order of magnitude and these same shares, which are expensive now, could become extremely expensive if future earnings fail to meet, what we assess to be, optimistic expectations.

Our inability to justify buying or owning these shares at present valuations does not mean that their price will not become even more expensive. Just as we saw with the irrational exuberance of the technology shares in the late 1990's, share prices can become very stretched before they eventually correct.

In order to reduce risk of exposure to such a possible reversal, we have maintained our strategy of migrating clients' portfolios towards those companies in which we have greater confidence of sustainable future earnings and which have more certain prospects of above average long-term growth of those earnings.

One consequence of our strategy could be that, should investors drive the share prices of the already fully priced mega-capitalisation shares to more giddy levels, our clients' portfolios would probably, in the short-term, under-perform the overall market.

As long-standing clients will know, our investment decisions are made with little regard to mimicking the index, and a great deal of regard to avoiding risk and acquiring value which over the long-term will, as it has, result in continued real wealth creation for our clients.