NORTHSTAR

ASSET MANAGEMENT

Client Letter 12 January 2008

Quarter End: 31st December 2007

Dear Investor

In the past five years, to the end of 2007, our clients have enjoyed average returns well in excess of 30% per annum. On a cumulative basis our clients' portfolios have, on average, out-performed the JSE by more than 10% per year.

A large part of the overall market's gains over the past five years has been directly attributable to significantly increasing company earnings which warranted the higher share prices. In heeding our own caution, we are circumspect of many companies ability to grow future earnings at a rate implied by their share price valuations.

Clients will be aware that we have, for some time now, been rotating their portfolios away from companies' dependant on the economic cycle and towards the so-called non-cyclicals. Our early move towards these more defensive companies created a drag on our clients' portfolios performance in the third quarter of 2007 when a fresh wave of optimism propelled higher the more volatile shares which our clients are most underweight.

In the last quarter of 2007 economic reality doused that spurt of optimism, and allowed our clients' portfolios to benefit from the defensive strategy which we have been adopting on their behalf.

As long-term investors, consistently applying our investment philosophy of only holding shares priced below their intrinsic value, we have to be prepared to accept short-term periods of underperformance. Expensive shares may become even more expensive and vice versa. However, we never compromise the integrity of our investment philosophy or the discipline with which we apply it. For it is this same approach which has consistently, over the past decade and more, protected our clients' capital from permanent loss of value and which has produced our superior long-term returns.

As we have suggested, current market valuations imply lower near-term returns. Despite this we have little doubt that the ongoing rigorous implementation of our investment approach will ensure that we assume lower than market risk and that our clients, over the long-term, will continue to outperform the overall market and receive pleasing returns on the capital that they have entrusted to our management.

Yours sincerely

Alexander Otten

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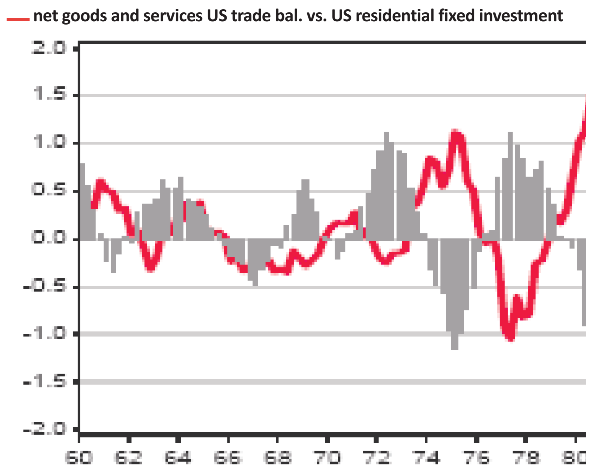
Market Report 12 January 2008

Quarter End: 31st December 2007

The fallout of the sub-prime crises, which we detailed in our previous report, continues to hold sway in world financial markets.

The US housing market will undoubtedly have secondary effects on economic activity such as house building, consumer spending and bank and financial services. A slowdown in US economic growth is a foregone conclusion, and we expect several quarters of subpar growth as the excesses of the housing market are unwound.

The tricky bit, for the US Federal Reserve Bank, is to deflate the housing bubble without causing the economy to slip into recession. We expect, over the next year, the Federal Reserve to reduce interest rates on numerous occasions.



Source: US Federal Reserve

The plunge in the US dollar, to its current lowest ever recorded trade weighted value, ensures that US exports have become substantially more competitive in the global economy and the country is currently on the cusp of an export boom. Many of the economic resources will be shifted from the housing market to export activity and this shift, in conjunction with lower interest rates, could well keep the US from falling into recession.

US housing and US exports have an inversely correlated impact on US GDP as is reflected in the chart on the left which shows the two year moving average of the +2% to -2% contribution of these respective sectors to US GDP over the past 47 years.

By over-consuming and taking on debt in the present, one is likely to be borrowing from future growth and prosperity.

Since the 1980's it has taken more and more debt to produce each $1 of GDP. While the economic environment has been relatively benign in this period, and the leveraging of the US economy has allowed for American lifestyles to be maintained, the debt level has now reached such a level that it impacts on economic policy. Federal Reserve Chairman Ben Bernanke recently said: "The ability of the US and its people to make debt service payments is limited. Adjustments must take place and the process of these adjustments will have both real and financial consequences." Delphic speak suggesting that both debt levels and interest rates need to be reduced; the former with some discomfort and the latter to ease this anticipated discomfort.

Source: Northstar Asset Management

History has taught us that lower interest rates overwhelm weaker earnings growth as a driver of equity prices. We will witness a tug-o'-war between economic fears and lower interest rates. This does not suggest that the period ahead will be without volatility. On the contrary; as each new sub-prime loss is reported, markets will lurch down; and, with each interest rate reduction, they will jump.

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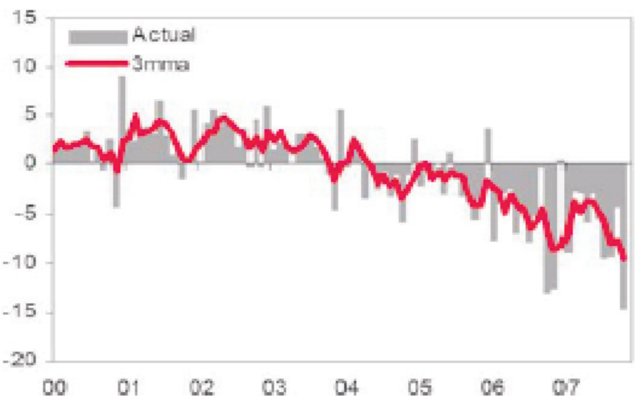
Investors' expectations of future returns are not always rational. After periods of strong gains in asset prices, return expectations are heightened; and, vice-versa.

We spend little time trying to predict short-term market moves but a great deal of time researching individual companies to analyse their prospects and assess their intrinsic value. In the 20 year period, from 1985 to 2005 (which includes the crash of 1987 in which it lost half of its value) the JSE delivered an average return of 19.7% per annum. Clearly demonstrating how much more important time in the market is to timing the market.

While we believe the overall market to be relatively fully priced at current levels, and witness its recent gains as having been driven by a narrowing group of expensive fashionable themes, we have little doubt that it remains the investment class of choice which, over the long term will, as it has in the past, continue to out-perform all other asset classes.

Longstanding clients will know that we prefer to be buyers when prices are low and sellers when they are high. Hence none will be surprised to know that we have continued to apply our strategy of incrementally rotating clients' portfolios from shares in companies whose current earnings are at all time highs and which are closely linked to the global economic cycle, and towards those which are able to grow their earnings irrespective of a possible retracement of commodity prices or a slowdown in that cycle.

SA trade balance in R bn.



Source: SA Reserve Bank

In the past year we have been more challenged in our efforts to find great investment opportunities. In part this was on account of continued share price rises within the market, and in part it is due to the prevailing fundamentals which were not only failing to keep pace with the share price appreciations, but which, in many instances, were deteriorating.

A slowing global economy, rising interest rates, a strong and strengthening rand, declining consumer confidence, and a large and growing trade deficit mixed with higher share prices did not instil in us the courage to go boldly forth.

As we have detailed previously, in most instances, the companies we have added to our clients' portfolios are best described as defensive. They have near term risks that are fairly transparent; and future earnings which we are able to calculate with a high degree of certainty, and which we are confident will outperform the overall market's earnings growth.

The JSE is, at the time of writing, down some 15% from its all time peak. Just as Northstar's clients' portfolios outperformed during the past five years of largely rising markets, so too will investors witness the value added by Northstar's management during more testing times such as now.

Much as we might wish to, as investors in the stockmarket, we cannot side-step the losses from the current market correction. However, we are confident that in this down cycle our clients' will, as in past down-cycles, again experience smaller declines in value than those produced by the JSE.

Moreover, market induced declines in capital value of our clients' portfolios will prove to be temporary and, through the continued disciplined implementation of our investment philosophy, we are confident that our clients will in the future, as in the past, continue to enjoy returns greater than those delivered by the overall market; and, at lower than market risk.