NORTHSTAR
ASSET MANAGEMENT

Client Letter 18 January 2010

Quarter End: 31st December 2009

Dear Investor

The Johannesburg Securities Exchange (JSE) All Share Index (ALSI) ended 2009 with a gain of 28.6% for the year as a whole. This seemingly pleasing result conceals the fact that in the first three months of the year the market lost 20% before experiencing a remarkable 60% appreciation in the final three quarters of '09.

The volatility over the past two years has unsettled many an investor and, despite the late recovery of the South African stock market, it still needs to appreciate by more than 20% in order to regain its peak value. During these unsettling times we are pleased that our clients' portfolios experienced substantially lower volatility than the overall market, and currently stand within a whisker of their all time peak portfolio valuations.

The ongoing nine month rally in share prices on the JSE has squeezed a great deal of the value out of the overall market. As share prices have appreciated, reported company earnings have declined by >25% and, even when compared to company analysts' (typically optimistic) projected future earnings, current overall market valuations are, by our measures, full.

The more that risky assets appreciate, the less their inherent value and the greater the risk of permanent loss of capital. Consequently, in both absolute and relative terms, under such conditions, less risky assets (as are included in our clients' portfolios) become both more valuable and desirable. While 2009 was a year which saw a broad market recovery from its March lows, we believe that in 2010 investors will need to be more discerning and tactical in individual stock selection.

In the light of this, unsurprisingly, we once again find that our clients' portfolios bear very little resemblance to the constitute components of the market's index. This is solely a consequence of our analysis directing us towards greater value which we are finding away from the momentum driven stocks responsible for much of the present rally. As always, any such difference is to be welcomed. For it is only in our being different, that we might be able to produce results which are pleasingly different from the market as a whole.

Over the years our risk-averse investment strategies have served our clients well and have allowed us to grow their wealth at a rate of return significantly greater than that of the stock market, while being exposed to significantly less than market risk. We remain confident that, through the ongoing disciplined application of our investment strategies we will, in the years ahead, continue to generate consistently rewarding long term results on behalf of our clients.

Yours sincerely

Alexander Otten

Alexander Otten

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

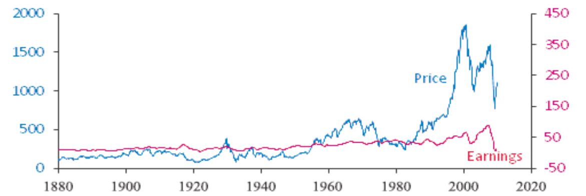
Company registration number 1996/001423/07
Member of the Fund Managers Association of South Africa
Regulated by the Financial Services Board of South Africa
VAT registration number 429 01 666 46
Member of the Investment Analysts Society of South Africa
Authorised Financial Services Provider - License number: 601

Under normal conditions it is difficult enough to predict share prices. With natural market forces manipulated through record low global interest rates and unprecedented direct market intervention from governments and central banks through quantitative easing, we have little doubt that share prices would be markedly different today had authorities not intervened. In the US alone the central bank has spent $1.7 trillion on buying up bonds and mortgages in order to place a floor under those securities' market prices.

It is worth repeating that the Bank of England has maintained interest rates at their lowest level in over 300 years, while US, European and Japanese rates also remain at record low levels. When measured against these abnormally low risk-free interest rates, most asset classes look cheap or, at worst, reasonably priced.

With economic recovery slowly gaining traction, we know that in the next few quarters, this quantitative easing will come to an end and, difficult as it will be, the markets are to be weaned from the governments' teat. Market forces, which have been distorted by government intervention, will not be contained forever. As interest rates normalise, low risk assets will provide competition to high risk ones which, over the past year, have been the only game in town.

S&P 500 Index Real Price (lhs) and Earnings (rhs) - 1880 to present

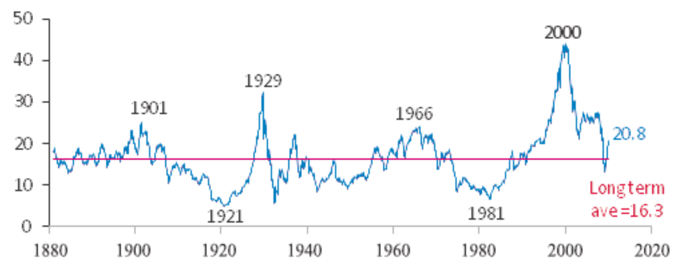


Source: Professor Robert Schiller, Yale University / Northstar Asset Management

In times of recession markets attempt to 'look through' the prevailing downturn in order to correctly price the recovery. Government intervention has the effect of contorting this process and raises the danger of investors overpaying now for tomorrow's anticipated 'good news'. The chart below shows the real, or after inflation, long-term price and earnings of the US Standards and Poor's 500 Index and reflects the extent to which an optimistic recovery in company earnings is already baked into the share prices.

The current price to earnings ratio of the S&P 500 currently stands at 20.8. While this is some way below the extraordinary heights it reached earlier in the last decade, it remains firmly above the market's inflation-adjusted trailing 10 year average of 16.3. History teaches us that following the bursting of a bubble, markets usually revert to cheap levels before eventually recovering. Wounded investors, nursing their losses, are reluctant to return to the fray. However, in the recent crash, governments privatised losses, underwrote markets and encouraged investors to return once more.

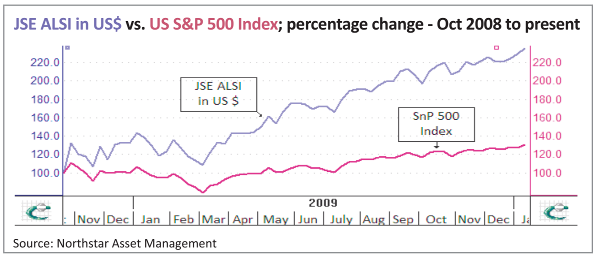
S&P 500 Index inflation adjusted trailing 10-year P/E multiple - 1880 to present



Source: Professor Robert Schiller, Yale University / Northstar Asset Management

Clients familiar with our views will know that, while we are confident of a gradual global economic recovery, we are less certain that company earnings will recover to peak values in the near term. The unique confluence of economic conditions which allowed corporate earnings to abnormally spike in the last decade were a heady cocktail of low interest rates, full employment, abundant and easily accessible credit, 'ever-rising' house prices and over-leveraged balance sheets, and will be off the menu for some time yet.

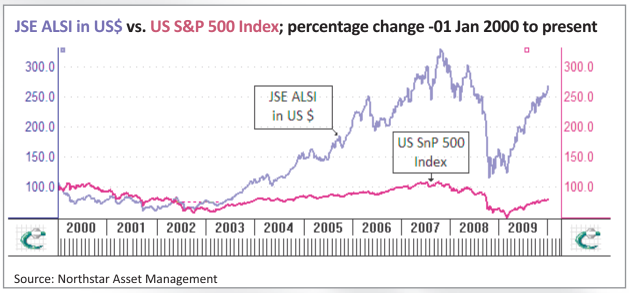
The South African financial markets have followed in lockstep to the drum beat of global liquidity flows. In 2009, in their stampede back into emerging markets, international investors invested a record R76bn in the Johannesburg Securities Exchange. From its October 2008 lows, the JSE ALSI has gained 132% in US Dollar terms. This compares favourably with the US Standard and Poor's (S&P) 500 Index which has appreciated by 30.6% in that same time period.



Given the challenging economic climate, which includes a stronger rand currency, higher wage and electricity input costs, as well as the estimated 1m jobs lost in this downturn, we do not entirely share investors' confidence that the near term future earnings for many companies will justify our paying the currently elevated share prices.

Even if it materialises that our caution is unwarranted, we are reluctant to invest when good news is already reflected in share prices, and regard it as even more foolish to overpay now for possible good news that might not materialise.

Over the past decade the performance of the JSE has been extraordinary. When compared to the US S&P 500 Index, which ended the decade with a loss of 22%; the JSE ALSI closed it with a gain of 175% (10.7%pa compounded) in US Dollar terms.



As impressive as the JSE's returns have been in the past decade, we are pleased to note that our clients have once more ended a decade with significantly greater than market returns on the capital entrusted to Northstar's management.

It would be remiss of us to not remind clients that these have been exceptional times. By definition, exceptional times do not prevail. In addition to company level challenges already identified, financial markets will have to deal with growing public sector spending and vastly increased global government debt which will lead to higher taxes. Funding programs will compete with the private sector for capital, diverting it from the productive part of the economy.

Just as the credit crises of 2008 pulled the plug on global liquidity and led to the plunging of asset prices; so too, in 2009, has the short term palliative of quantitative easing flooded global markets with liquidity and buoyed prices. While the assets never changed, these tidal liquidity flows led to dramatic changes in their prices.

In 2010 we are unlikely to see a repeat of the extraordinary market wide price movements which characterised 2008 and 2009. Wealth is unlikely to be generated in avoiding losses or riding a recovery, but rather it is more certainly to be secured from discerning and tactical investing within those markets.

This suits us well as we are considerably more comfortable in relying on our individual company analysis and share selection to identify reliable sources of wealth creation, than we are at trying to predict and time broader market movements.