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ASSET MANAGEMENT

Client Letter 18 April 2002

Quarter End: 31st March 2002

Dear Investor

For the past few years we have been warning of the overvaluation of US (in particular) and global stockmarkets. While they have fallen substantially, these markets are now at best slightly overpriced and are certainly still not cheap. Just as markets overshot on the upside, so too can they overcorrect on the downside. We are very aware that we may sound like a songbird that knows only one song, which is why our analysis has been ever more rigorous before reiterating this view. Market volatility will be with us for some time yet.

In the past quarter the JSE fell by over 11% while our clients' portfolios ended the period largely unchanged. Over the past six months the JSE has fallen near 14% and our clients' portfolios have increased in value. Over the past year the JSE has delivered a return of 16% and our clients' portfolios have returned more than double that.

Just as global market valuations are unappetizing, many South African companies are attractively priced. Over the past few years the JSE has been weighed down by negative sentiment which led to local shares trading at a fraction of the ratings of our international peers. The bubble that was allowed to develop in the US, and some other stockmarkets, is now being deflated and is bringing associated pain to bear in those markets.

Our investment strategy has allowed us to weather the turbulence of current market conditions and to return superior capital gains to our clients. Although market conditions are expected to remain challenging, we continue to find intriguing investment opportunities that we believe will offer attractive long-term returns.

Yours sincerely

Alexander Otten

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The US economy seems to be on the mend. Demand has increased as businesses rebuild the inventories that they ran-down as evidence of the shortest and shallowest recession on record emerged six months ago.

Will the heroic American consumer follow suit and buy those rebuilt inventories off the shelves? If so, economic activity will rebound, however, in order for US interest rates to normalize they will have to almost double from their current exceptional post-September 11th levels.

US market S&P historic Price to Earnings Ratio – 1960 to March 2003

US GDP growth - Annualised % Change from Preceding Quarter

	Initial	Quarter of contraction						
Recession	Contraction	1st	2nd	3rd	4th	5th	6th	7th
1957-58	2Q57	-0.9	***4.0***	-4.1	-10.3			
1960	2Q60	-2.0	***0.7***	-5.0				
1969-70	4Q69	-1.9	-0.6	***0.8***	***3.6***	-4.2		
1973-75	3Q73	-1.6	***3.4***	-3.0	***1.1***	-4.4	-2.2	-5.0
1981-82	2Q81	-2.8	***4.9***	-4.6	-6.5	***1.7***	-1.9	
1990-91	3Q90	-0.7	-3.2	-2.0				
2001-?	3Q01	-1.3						

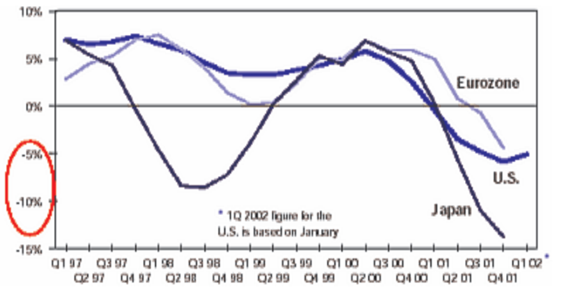
Figures in bold italics denote false start quarter of GDP growth

Source: Morgan Stanley / Northstar Asset Management

If the consumer does not buy, we could have a “double-dip” recession as businesses slash prices to rid their surplus stock and shed jobs to rein in costs. Five of the last six US recessions have been “double-dip”. In double-dip recessions, after the initial downturn, the economy registers a small bounce and then a second recession begins.

The recent sharp rise in crude oil prices is unwelcome by the OPEC and G7 nations who share concern about seeing the economic rebound being derailed. It’s worth noting that there’s a significant difference between an economy that is “recover-ing” and one that’s “recover-ed.”

Industrial Production - Year-on-year % Change, Quarterly



Source: ECB, Federal Reserve, MITI, Merrill Lynch Economics, Merrill Lynch Global Energy Team

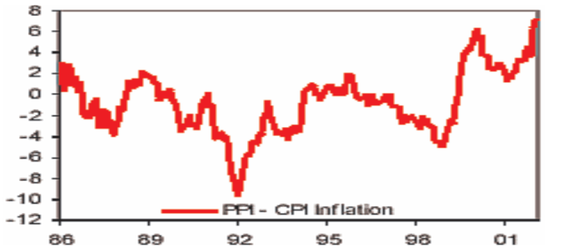
Our belief is that US consumer sentiment will stay fragile and capital investment will remain anaemic. Most importantly, US company earnings will be disappointingly low. Stockbrokers’ analysts are still amazingly optimistic. Analysts are looking for US stocks to achieve annual growth in earnings per share of 15% over the next five years. This is more than twice the average rate achieved over the last 40 years.

With the probability of higher interest rates in the US, the biggest driver of the markets recent recovery, liquidity (cheap money) has peaked. An important crutch that has underpinned the markets appears vulnerable.

There is currently significant investment opportunity within the SA stockmarket. Locally listed shares trade at attractive valuations both on an absolute and relative basis. The prevailing depressed local sentiment presents opportunities for the genuine investor.

In the past quarter we took the advantage of food producers’ weak share prices to increase our exposure to them. In the wake of two previous Rand crunches (‘96 & ‘98) inflation remained relatively tame. This time we detected early indications of (particularly food) producers raising prices.

Producer Inflation *minus* Consumer Inflation



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In the past food producers have not had the pricing power to force through price increases. For many years their share prices languished as margins were squeezed, cost curtailed while their productivity and efficiencies increased.

Now lean and mean, they are restoring margins and profitability should rise substantially. The lower rand not only makes import substitution less of a threat, but also makes exports more profitable. These are part of the reason why we have bought companies like Tigerbrands and Ilovo.

The banking sector constitutes twenty percent of the JSE all share index. Our exposure has, until recently, been less than half this. While we remain underweight the sector as a whole, the recent declines in Investec and Stanbic afforded us the opportunity to increase our exposure at very favorable prices.

We have decreased our gold exposure. Not because our opinion regarding the future price of the metal has changed, but because of the huge increase in the share price of our chosen stocks which discounted a substantially higher gold price.

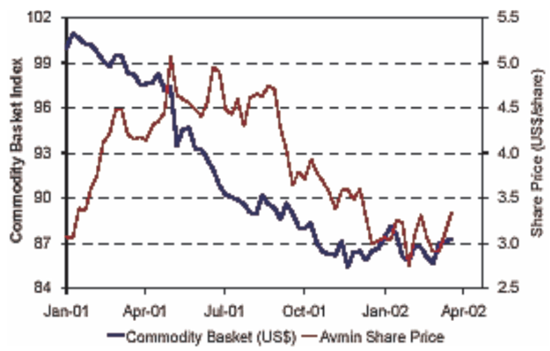
A portion of the proceeds of the gold sales was invested in platinum counters whose prices had, at that time, dipped. The platinum price has been under considerable pressure over the past year. This has been more than offset by the decline in the currency. We believe the price of platinum has more upside than downside.

Gencor owns 46.1% of Impala Platinum and these shares make up 98% of Gencor's NAV, the balance is cash. Gencor currently trades at a 14% discount to its underlying asset value. All things considered, this is too wide. Later this year shareholders will receive almost all of the Impala shares presently held by the Gencor and we will be gaining direct exposure to the very attractive Impala at a discounted price.

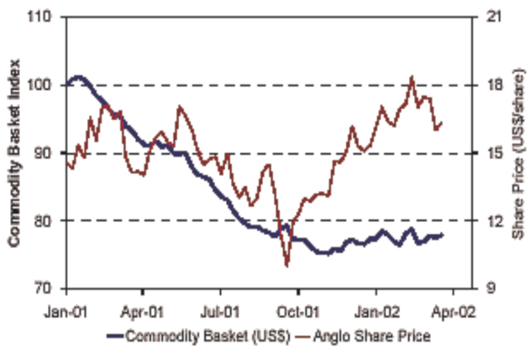
Moreover, Gencor currently trade on a dividend yield of around 6.5%. Effectively one is earning much the same in (tax free) dividends as one would in interest (after tax) were the funds to be placed on deposit in the bank. The dividend flow will (unlike bank interest) increase over time while we gain exposure to the potential upside of the platinum price and enjoy a very sound Rand currency hedge in the process.

We were pleased to be vindicated in our view of the value to be found in the non-dual listed commodity shares. Anglo American recently purchased a 34.9% stake in Avmin at a substantial premium to the then market price. At around 5% of our portfolios, Avmin is a well-run business that holds very desirable mining assets.

Avmin vs. its commodity basket



Anglo vs. its commodity basket



Source: BJM Stockbrokers

As is evident from the above charts, relative to their specific commodity baskets, the Avmin share price has far more upward potential as compared to that of Anglo. Anglo ran as the currency depreciated over the year-end, and has discounted substantial improvement in the price of its unique commodity basket. Avmin has yet to do so.

We have significantly increased our clients' exposure to Woolworths. Corporate restructuring and stemming of losses at Australian subsidiary Country Road will enhance earnings and profitability. The share currently trades at attractive ratings on depressed earnings and offers secure upside potential.