



NORTHSTAR
ASSET MANAGEMENT

Client Letter

17 July 2003

Quarter End: 30th June 2003

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Dear Investor

In the past quarter our clients' portfolios have again performed satisfactorily and continue to provide returns superior to the market and at a level of risk well below that of the overall market. Clients may be pleased to note that when the market falls, as it did over the last year, we were able to avoid all of that loss. However, when the market gains, as it did in the past quarter, we are able to capture all of that gain for our clients' portfolios. While our relative out-performance may not be as pronounced going forward, we believe that the market is at present offering broad value and that patient investors will be substantially rewarded.

In the past quarter our clients have seen the fruits of some of our re-structuring driven investments. Gencor unbundled Impala Platinum shares and unlocked a 15% discount as well as the 6.5% dividend yield of Impala – the worlds largest free-float platinum producer. Coronation also unbundled and in so doing released an almost 20% capital gain (a large portion by way of a tax free dividend) in returning to shareholders R37.50 per share in cash and distributing shares in Coronation Fund Managers. Naspers continues to attract new investors who persist in driving the price higher. Since their restructuring the share price has appreciated by over 60% and is now approaching our assessed intrinsic value.

The JSE remains attractively priced, and our clients continue to hold large positions in domestic retail and industrial shares whose ratings are undemanding. A reduction in inflation following the strength of the Rand should result in a sharp reduction in short-term interest rates in South Africa and further increase the relative attractiveness of local shares versus other asset classes.

Some of our preferred shares have appreciated sharply and have become more fully valued. Consequently, we intend to reduce exposure to these counters and will deploy the proceeds in companies whose share price is currently trading at a more significant discount to our assessment of their intrinsic value. In so doing, we will, relative to the JSE, further reduce the risk levels and enhance potential reward of our clients' portfolios.

Yours sincerely

Alexander Otten

NORTHSTAR ASSET MANAGEMENT (PTY) LTD.

4 Chester Drive Bishops court 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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Market Report

17 July 2003

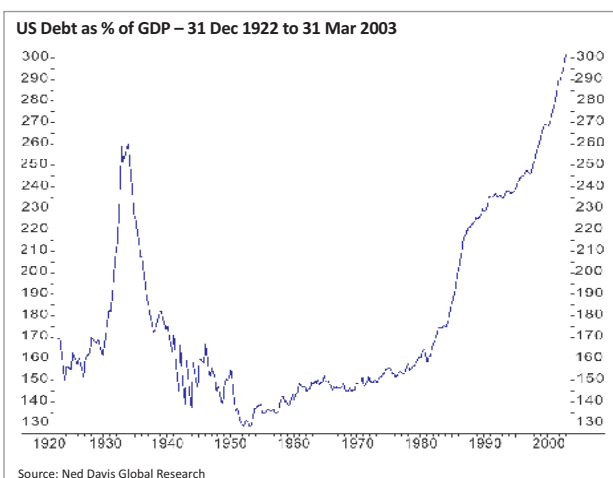
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Global interest rates continue to fall. Central banks, determined to reflate their economies and avoid the specter of deflation, have reduced interest rates to levels not seen in forty years, or more.

Despite this, and a boom in US house prices, US mortgage defaults are at record levels. Although serviceability of home loans is easier at low interest rates, homeowners have run down savings and (through second and third mortgages) have withdrawn so much equity out from their homes that any unemployment rate increase triggers wide-scale defaults.

This applies equally to corporate America. In the 1990's many companies raised debt to buy back shares in order to give the (false) impression of increasing earnings per share. Earnings have now declined and the risk of leverage is apparent.



Total debt as a percentage of the US economy (GDP) recently passed 300%. Particularly in the past two decades, US debt has grown as a percentage of the overall economy. It is a huge burden to the economy. Despite 12 interest rate cuts, large tax cuts and 1.8 million Americans shed from payrolls, the last six quarters have seen a record 2.4 million US bankruptcies.

Much of the corporate debt was used in the investment binge of the 1990's to create additional capacity. Overcapacity is now a global problem. China's explosion onto the world market and its undervalued currency (which is pegged to the US\$) has compounded the problem. A dogfight of global currency devaluation is taking place as each country tries to keep its own factories busy and population employed. While this might appear to benefit consumers, (those that remain employed) the truth is that very high debt levels, rising unemployment and job insecurity make them less likely to want retail therapy.

In the US interest rates are currently below the rate of inflation and the central bank is increasing the amount of money in the economy by four times the rate of inflation. It is like Y2K all over again. Except for Y2K it was the volume of liquidity which was manipulated and this time it is the price of the liquidity.

The result of Y2K was the Nasdaq bubble and this time it will probably be the US housing market which is already over-inflated as buyers use artificially depressed negative interest rates to purchase properties which they will not be able to sell at like prices when interest rates normalize.

If the latest cuts in short-term interest rates fail to fire-up the moribund economy, we face deflation. However, if the US economy does heat-up, interest rates will jump and the increased cost of servicing the accumulated debt will undermine the strength of the economic recovery.

Although we believe that the US economy might well begin to recover late in the third quarter of this year, we believe it will be anemic and that corporate profits will be restrained by increased debt servicing costs, pension deficits, and margin destroying pricing competition aimed at wooing the increasingly squeezed consumer.



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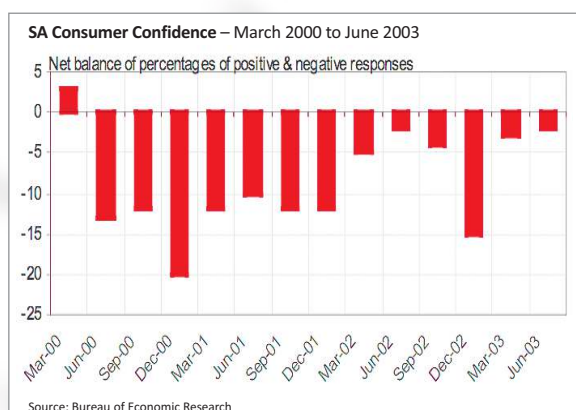
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The confidence of the South African consumer has improved from the low reached at the end of 2002. Reduced consumer prices, including the fuel price; tax cuts, increased welfare grants and an improvement in the exchange rate may all have contributed to improved sentiment. Recent, and anticipated, interest rate reductions are likely to further bolster confidence of the domestic consumer and support economic activity.



This augurs well for domestically orientated companies which have little direct or indirect exposure to foreign competition. In order to benefit from this, we have maintained an exposure to companies such as Woolworths, Naspers, Kersaf, Afrox, AECI and Tigerbrands. All have supported our clients' portfolios well.

The relative strengthening of the Rand has continued to cap the Rand prices of many of the dual listed heavyweight shares in the local market. This has had the effect of further reducing the value disparity that existed in the market 18 months ago. At that time we believed large segments of the market were over and undervalued. In present conditions, value has broadened across the market and in some instances been reversed.

Over the past few years the risk premium paid by SA to access international capital markets has declined significantly. This reflects international investor's risk assessment and, in turn, reinforces downward pressure on domestic interest rates.

It is likely that SA is about to enter a period of declining interest rates. Domestic interest rates are high relative to the developed world and scope for a material decline in rates exists. This will be positive for local economic activity and allow companies to increase their current low levels of gearing (industrial shares in particular) which should be positive for underlying earnings.

It should also become apparent that equities are more attractive relative to other investment choices. Ten-year bonds currently yield 8.3%

after tax versus the 10.8% earnings yield offered by equities. The bond market has largely already discounted much of the expected drop in interest rates. The share market is likely to re-rate once companies' improved earnings are more tangible.

Given the absolute value levels at which SA shares are currently trading, we believe that, with time, the opportunity for gain substantially outweighs the risks of being in the market.

