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Dear Fellow Investor and Client

We hope that the past quarter has gone well for you. I am writing the client letter for Q1, 2024, as Adrian is currently recovering from minor surgery, and doing well for that matter. Most would never know that he is out the office as his finger is ever on the pulse, and he is due back shortly.

It's been a busy start to the year, our client services team have, as usual, been involved with annual client consultations – these are important discussions around current positioning, financial progress against objectives set, and the minor tweaks that are sometimes necessary. Northstar, or your financial advisor will be making contacting with you to do the same, but also please feel free to contact Ludi.

The last 4 years have been eventful starting in 2020 with Covid; 2022 saw a major war return to Europe; and a significant escalation of conflict between Hamas and Israel in 2023 is still fresh in our minds. 2024 gives us an extra day, the European government has already signed the Artificial Intelligence (AI) Act (a world first) this month, and in May hopefully voter turnout in South Africa, is strong. Although I have time for ChatGPT (OpenAI), rest assured this letter was not written by ChatGPT(!)

I encourage you to read our first quarterly report of 2024, which focuses on macro factors impacting South African markets. Lo Giyose's Big Picture shows how SA's national imperative has "triumphed" over shareholder imperatives; and secondly, Mark Seymour sets out how USD policies broadly impact our economy. Finally, we introduce Sahil, another investment team member enthusiastic about what he does.

The financial industry in South Africa continues to face headwinds including low economic growth, a plethora of small players fighting for a shrinking pie, and regulatory challenges such as the grey listing. Consequently, many industry players are seeking avenues to differentiate themselves – one such approach, has been to chase outperformance by taking excessive risk.

A recent example, is that a well-known investment manager bought debt instruments into their fund that promised outsized returns through interest yield. These instruments were linked to an underlying taxi financing structure. Not entirely unsurprisingly, in time the borrowers failed to pay the required interest and the instrument defaulted. This is expected to result in the unit holders (clients) within that manager's income fund, having to write off a substantial portion of their investment. Some multi-managers and discretionary fund managers were also exposed, so even professional investment manager pickers get these calls wrong, essentially being under the same pressure to outperform. Chasing returns at high risk levels, which are often very difficult to measure accurately, can be a costly strategy, and is at strong odds with our approach to investing.

We are of the view that other latent risks exist in the financial system, and these have been less than obvious because global interest rates have been kept artificially low since the GFC in 2008. The current higher interest rate environment will slow down economic growth, whilst creating debt burdens, which are most impactful on weak companies. It is our contention that further unpleasant surprises might well be forthcoming for managers taking unnecessary, or not appropriately understood risks, and their unsuspecting clients will unfortunately bear the brunt of these failures.

We are diametrically opposed to unfettered risk taking. Instead, our differentiation is based on managing risk very carefully for each of our clients. Firstly, our funds only invest in assets that offer measured risk/return profiles. Secondly we understand each individuals risk appetite, individualised to their specific growth needs, and we manage that risk versus return relationship acutely by placing the clients funds into the right asset mix. In addition, our business centers around client service and absolute care. These guard rails have ensured that you have had no exposure to instruments such as the taxi debt, just as you will recall, you would have been unaffected by Steinhoff, as Northstar was an anti-Steinhoff proponent. Our behaviour plays a significant role in your investment outcomes!

With regards to Northstar as a business, despite a challenging economic landscape in South Africa, we have no time for complacency and we continue to invest in our firm, both in terms of technology, but equally so, into our staff! We remain on an enduring journey of constant improvement, both with regards to investment performance as well as offering you a personalized level of care. There is no end to this!

As an example of this commitment is our relationship with our sister asset manager, First Avenue Investment Management. The combined efforts of both firms create better outcomes for our clients, our staff, our charities and our shareholders. With an enlarged investment team, we can research more companies in South Africa and abroad and collectively, the firms have a significant amount of assets under management, allowing us to bargain for better pricing with suppliers.

I conclude with thanking you for your support. The team at Northstar are passionate about what they do, and receive great joy when our efforts meet your expectations.

Kind regards,

Matt Bertram on behalf of all of us at Northstar Asset Management