The Northstar Market Report for the first quarter of the year should appeal to investors that seek stock and fixed income insights, to worried land owners in SA as John Steenhuisen provides an insiders perspective on expropriation and to our existing and prospective clients on Northstar's services, which we are constantly improving. We believe the content is rich and diverse and should appeal to readers with differing needs.

THE BIG PICTURE

DOES QUALITY INVESTING WORK?

By Adrian Clayton (Managing Director & CIO)

'Long-term exposure to quality assets where value exceeds price' defines our investment belief system and our behavior too in that it determines the characteristics we seek in companies that are allowed into our clients' portfolios.

An investment philosophy shouldn't simply be some idealistic dream, it should be grounded in fact with credible evidence demonstrating that adopting the approach results in consistent long-term investment performance for clients. With this in mind, in Big Picture Thinking for Q1 2018, we address why we believe and trust our philosophy.

Why we are long-term focused?

In the graph below (Figure 1), we plot a portfolio of high quality companies over different time periods. The black line is the performance of the portfolio over 1- year rolling periods (any point on the graph shows the performance of the portfolio over the past 12 months), notice how volatile returns are with losses and gains quite random. Predicting returns for the following year is close to impossible.

The blue line is the same portfolio but measured over 3-year rolling periods. Quite clearly, the portfolio has a smoother return profile and remarkably, does not produce a negative return over any 3-year rolling period since 2003.

7-year rolling returns (red graph) for the portfolio shows high levels of predictability with relatively smooth returns and no negative 7-year rolling periods.

Our work proves unequivocally that being long-term focused places the odds in our clients' favour of generating consistent investment returns. For exactly this reason it is a key dimension of Northstar's philosophy!

What is the difference between Value investing and owning Quality companies at the right price?

At Northstar, we seek to own quality companies when they are undervalued by the market. This is quite distinct from owning poor conditioned businesses or cigar butts (as Warren Buffett described some of the investments sought-out by Benjamin Graham) which are colloquially referred to within the investment world as 'value' stocks. Value in-

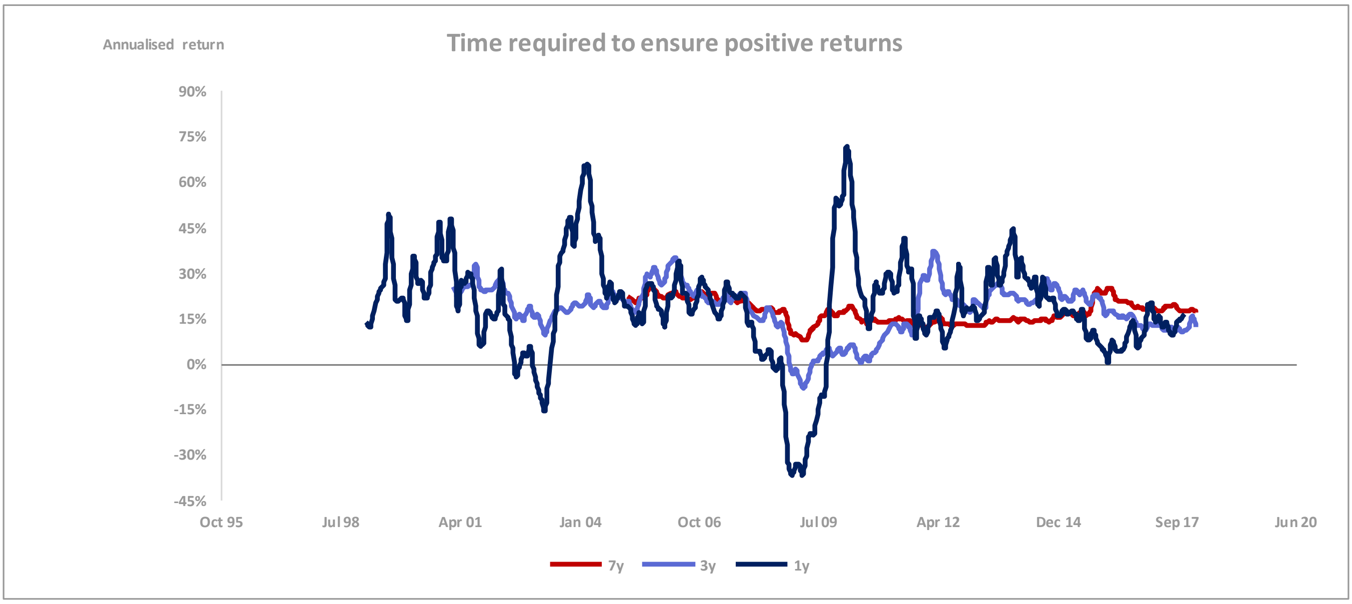

Figure 1. Company portfolios over different time periods. Source: Bloomberg, Northstar Asset Management.

vesting is in our minds, more about the 'cheapness' of an asset and asks few questions about the quality of a business. It is our contention and experience that cheap can prove dirty and dangerous! Our approach is first about establishing the quality characteristics of a company before we concern ourselves whether it is undervalued.

Why we believe in Quality at the right price?

Northstar's reason for seeking-out undervalued quality companies rather than cigar-butts is three-fold. Firstly, quality investing sits comfortably with us as our experience of other approaches is that the probability of success is lower. Secondly, we believe that quality is a greater moat than 'cheapness'. Lastly, our empirical data shows that it works – buying quality businesses that are mispriced generates higher returns than the market over time!

The graph below (Figure 2) shows the performance of the S&P 500 (US benchmark index) against our back-tested portfolio of quality companies purchased when they meet our valuation screening criteria. We look at various rolling periods, ranging from 1 to 15 years. What the graph demonstrates vividly is that whichever time period is involved, the quality portfolio at a reasonable price outperforms the S&P with respect to upside returns and remarkably, has lower downside than the S&P too. In fact for periods greater than 5 years, the Northstar quality portfolio produces no negative rolling periods.

We have no doubt that owning quality companies at the right price is the key to successful investing and consequently, each and every investment within our clients' portfolios are tested vigorously to ensure that they meet the numerous benchmarks of quality and value.

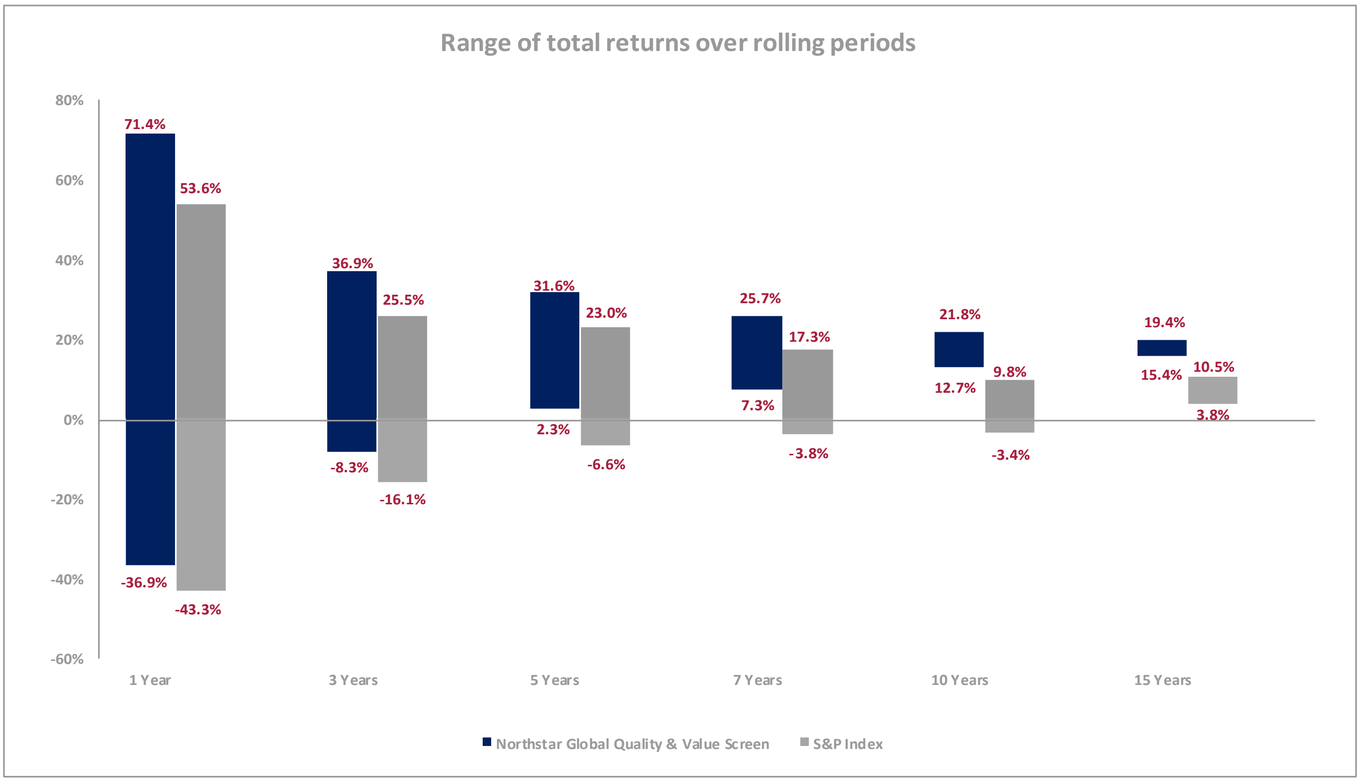

Figure 2. Performance of the S&P 500 (US benchmark index) against our back-tested portfolio. Source: Bloomberg, Northstar Asset Management.

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Annualised returns are period returns re-scaled to a period of one year. This allows investors to compare returns of different assets that they have owned for different lengths of time. Actual annual figures are available to the investor on request. Income distributions, prior to deduction of applicable taxes, are [included/not included] in the performance calculations. NAV to NAV figures have been used for the performance calculations, as calculated by the manager at the valuation point defined in the deed, over all reporting periods. Investment performance calculations are available for verification upon request by any person. Reinvestment of income is calculated on the actual amount distributed per participatory interest, using the ex-dividend date NAV price of the applicable class of the portfolio, irrespective of the actual reinvestment date. The performance is calculated for the portfolio. The individual investor performance may differ, as a result of initial fees, the actual investment date, the date of reinvestment and dividend withholding tax.

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