Northward Capital Australian Equity Composite
Quarterly Investment Report
30 June 2010

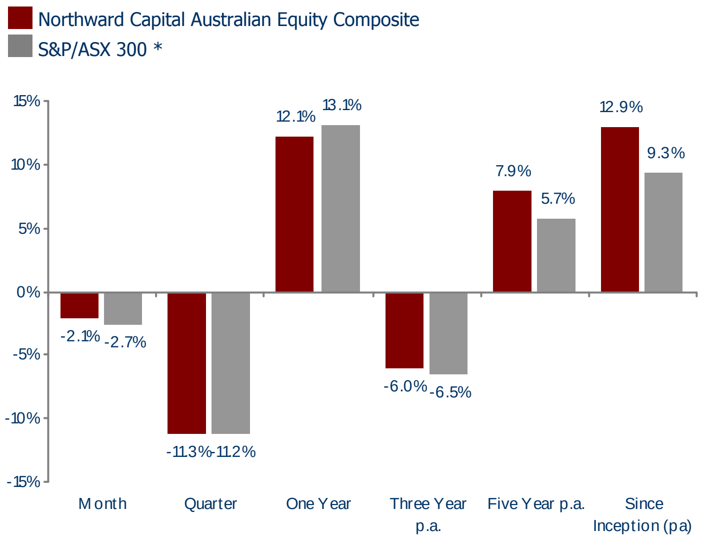
Fund Results

Portfolio Results	Quarter
Northward Capital Australian Equity Composite	-11.28%
S&P/ASX 300 *	-11.20%
Value Added	**-0.08%**

Stock Contributors	Overweight (+) Underweight (-)
Newcrest Mining	+
Resmed	+
Equinox	+
Metcash	+
Centennial Coal Co	+

Stock Detractors	Overweight (+) Underweight (-)
Telstra	-
Westpac Bank	+
Lihir Gold	-
Western Areas	+
Westfield Group	-

Risk Information	
Standard Deviation	18.5%
Tracking Error	4.1%
Information Ratio	0.1



(1) Market value of the investment as at month end was $2,496.16 Million
(2) Inception return is calculated from 1 June 2004
(3) Returns are calculated gross - before taxes, before fees
(4) * Benchmark was S&P/ASX 300 ex LPTs prior to 1 May 2009
(5) Composite of accounts with similar benchmark (12 accounts in current month)
(6) Risk stats (where applic) based on mthly returns over rolling 3 year periods

Market Review

The Australian equity market pulled back 11.8% over the June quarter, with the main events being Euro Zone weakness and the Government's RSPT proposal. Despite this and weaker commodity prices, the Resources index (-11.0%) roughly matched the market, while Banks (-17.1%) and Industrials (-19.7%) underperformed. Defensive sectors returned to the fore with Telcos, REITs, Consumer Staples and Utilities outperforming.

Concerns about fiscal and banking problems in Europe overshadowed markets along with some mixed US economic data, particularly the absence of private sector new jobs in the May US payrolls report (inflated by Census hiring).

The AUD showed the effects of waning risk appetite, falling 8% against the US dollar, while the Prime Minister Kevin Rudd dramatically stepped down and was replaced by Julia Gillard towards the end of the quarter.

Mining companies reacted forcefully to the government's RSPT proposal and worked effectively together to thwart the Govt's originally mooted RSPT tax, which led to the revised MRRT proposal.

As the end of the financial year approached, a number of companies updated the market on their earnings outlook, with most guiding expectations lower, with AGL being an exception.

These downgrades spanned sectors such as retail, insurance, travel, healthcare, contractors and airlines. Consequently, many strategists are revising down their ASX200 price targets as the FY11 EPS market estimate is revised lower. The Australian market has now pulled back 15% from its late April high, in line with the global equities' decline of 16%, whilst having risen 59% from the March 2009 lows versus global equities' rise of 80%.

The RBA raised rates by a quarter of a point at each of the first two meetings of the quarter, taking the series to six hikes in seven meetings and the cash rate target to 4.50%, but went on hold in the June meeting. Local data mostly pointed to continued economic resilience, notably employment, which rose by 92,000 from March to May. However, housing and consumer releases were more mixed, and market expectations of future rate hikes backtracked over the quarter.

Additionally, Australian GDP rose just 0.5% quarter on quarter, less than half the revised 1.1% rate of advance in 4Q09 (prev. 0.9%), while consumer sentiment, as measured by the Westpac-Melbourne Institute, fell from 117 in February to 108 in May, reflecting the burden of tightening interest rates. Likewise, the NAB Business Confidence Index has fallen from 19 in February 2010 to 5 in May.

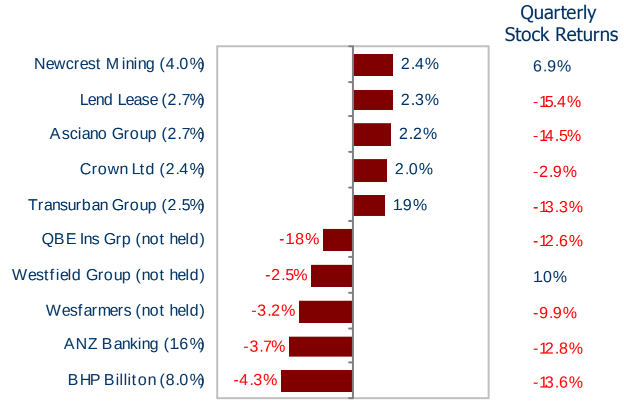
Performance Review

Over the quarter, Northward's portfolio returned -11.28% versus the ASX300 index return of -11.20%, resulting in a broadly flat performance versus the market.

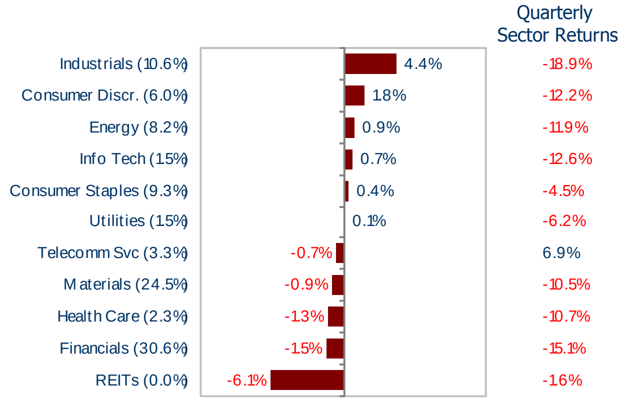
Major contributors to performance included Newcrest Mining, Resmed, Equinox Minerals, Metcash and Centennial Coal. Detractors from performance included Westfield Group, Western Areas, Lihir Gold, Westpac Bank and Sims Metal Group.

Fund Composition

Active Stock Positions
Underweights / Overweights versus benchmark



Sector Diversification
Underweights / Overweights versus benchmark



Portfolio Strategy

The market outlook is definitely more mixed than only a quarter ago after the February reporting season, which was quite good overall. Since then, the RBA has continued to hit consumers with another two interest rates rises of 50bps in total, thereby crimping consumer spending and demand for housing, while problems in Euro land have impacted confidence and stock markets globally. Now that the RSPT has been resolved and replaced with a less draconian 'MRRT', the main issues weighing on the market are slowing growth rates in China, sovereign debt issues in Europe and the shape and pace of the US economic recovery.

It is too early to tell how the Euro zone soverign debt issues will be resolved. The rate of economic growth in China is slowing under the weight of tighter credit conditions, though we believe the authorities will be reluctant to introduce further measures given mounting evidence of slowing global conditions.

Recent data out of the US, is also raising questions about the pace of recovery for the economy. This has come in the form of a weaker ISM for June (still in expansion mode, but weakest for calendar year); a sharp decline in May housing starts and approvals; a stubbornly high unemployment rate and weak consumer confidence. So while some of the manufacturing and export data out of the US is encouraging, it continues to be a slow grind towards employers rehiring, improving consumer sentiment and more sustained GDP growth.

For Australia, we see an ongoing corporate earnings recovery, but with some emerging risk to a number of bullish EPS growth estimates in FY11. The resolution of the RSPT should see a number of projects get the green light again, which will be positive for Australia's export earnings as well as encourage capital spending and employment for contractors and a number of ancillary sectors and service companies.

In summary, we have less confidence in some of the more bullish economic commentators' outlooks for market EPS growth in 2011, but the market has now priced much of this into valuations ahead of consensus EPS downgrades. Increasing headwinds in Euro land and weakening data in China, as the Government seeks to cool its overheated economy are naturally leading us to a more cautious stance on some portfolio positions. This has seen us reduce positions in BHP (more underweight) and Rio (but still overweight) and increase our positions in gold stocks Lihir/Newcrest and stocks such as TLS and Metcash. We have also added some more defensive stocks in Fosters and Amcor, which have improving stock specific drivers. However, cyclicals have been heavily sold off over the quarter and any normalisation of the current high risk aversion will see these stocks perform strongly. It may well be that the 'normal' environment going forward is one in which we see moderate growth, but volatile risk aversion, thereby leading to short and sharp rotational cycles rather than extended periods of economic prosperity and stockmarket stability as we saw for many years from 1982 to 2007.

Portfolio Activity

Position Change	Holding	Start %	End %	Activity
Increased	Transurban Group	1.9%	2.5%	We participated in a Transurban rights issue which was used to fund the purchase of Lane Cove Tunnel. The acquisition price paid for Lane Cove was sensible and accretive to the Transurban Group. The rights issue price was at a discount to the previous traded price of Transurban and the additional investment offered good return prospects. We also participated in an on market sell down of stock by one of TCL's larger shareholders. Again this investment offered a good expected return.
Increased	Telstra	1.4%	3.3%	Telstra operates in an environment where there are significant regulatory and political issues to be considered. Although we believe that TLS's operating conditions continue to worsen, the value of its cashflows in our view are >$3.50. The prospect of TLS competing head on against the proposed National Broadband Network posed significant risk to this valuation. We took the view that the Labour government and NBN would be increasingly motivated to reach a reasonable compromise with TLS and that the stock would rally as a result. The recent Heads of Agreement between TLS and NBN is a meaningful but not definitive milestone in alleviating risk to the TLS investment case and has seen the stock outperform the market.
Increased	Fosters Group	0.0%	1.6%	Foster's Management announced their intention to separately list the beer and wine business. Operational separation is now complete, the precursor to separate listing. It is anticipated individually the beer business would trade at a premium as it is one of the few remaining independent beer businesses of size and is expected to be sought after by one of the large and consolidating global brewers.
Increased	Amcor	0.0%	1.1%	We invested in Amcor for the first time in many years. The company's main focus is now on the integration of Alcan in terms of retaining the associated synergies of $200-250m. Given the geographic and product overlap, combined with the obvious and understandable management distraction of being a non-core business for the last three years under Rio ownership, we think the opportunity is ripe. Assuming no greater than GDP growth, retaining the synergies suggests AMC is capable of internally controlling double-digit EPS growth each year for the next three years.
Increased	Lihir Gold	0.0%	1.0%	Lihir Gold (LGL) was added to the portfolio during the quarter. We are more positive on the gold price given the uncertainty in Europe and the "safe haven" status that gold represents. Lihir also represented further potential corporate appeal as a result of the Newcrest bid for the company on 1 April.
Decreased	Westpac Bank	9.4%	7.2%	We reduced our weighting in WBC as we expected further nervousness in global debt funding markets to negatively impact the Australian banks due to their reliance on wholesale funding. As WBC and CBA's absolute funding requirement is larger than peers a simplistic view would see these stocks at higher risk.
Decreased	Sonic Healthcare	1.0%	0.0%	The recent earnings downgrade highlighted the impact from Government mandated fee cuts was larger than expected. With deregulation of collection centres to begin from 1st July, competition is opened up and rents paid to referring sources are expected to rise. Volumes remain weak and further fee cuts are expected in the next budget. Regulatory risk and earnings risk remain high.
Decreased	Pan Aust Resources	0.4%	0.0%	We exited our shareholding in PanAust as we had become more concerned in April 2010 about the sustainability of growth in China (see earlier comments and also March qtr) and hence the copper price.
Decreased	BHP Billiton	9.5%	8.0%	We sold part of our BHP position due to further concerns on the European situation and slowing rates of growth and potential property sector issues in China.
Decreased	WorleyParsons	1.0%	0.0%	We exited our position in WorleyParsons over the quarter as we are concerned about the continued deferral in projects affecting WOR's revenues. We remain confident that WOR has an outstanding long term business, which is well located in many global regions. We just believe that a return to more tendering activity in hydrocarbons and power particularly isn't likely until the first half calendar 2011.
Decreased	Centennial Coal Co	1.2%	0.8%	Part of our CEY holding was sold as a result of a large corporate buyer of the stock offering a large premium to the market price. In addition we sold more of our stock when the price rebounded on the back of that same buyer increasing its holding in the company.

Stock in Focus

Newcrest Mining Ltd Current Market Price $33.45
Target Price $42.00

Newcrest Mining (NCM) is the largest Australian listed gold producer and is one of the key overweight positions in the portfolio. The company has major projects in Australia (Cadia, Ridgeway and Telfer), Indonesia (Gosowong), and Papua New Guinea (Hidden Valley). Newcrest also has significant potential projects in Wofi Golpu (PNG) and Namosi (Fiji). The company in Financial Year 2010 is projected to produce 1.8 million ounces (moz) of gold and 85,000 tonnes of copper. Newcrest is one of the lowest cost gold producers in the world, benefitting from significant credit in its cost base from copper production.

Newcrest's growth profile is also one of the most significant in the market. The company is projecting some 40% growth in production (pre acquisitions) by 2014. The low cost nature of the business drives EBIT margins of some 35% and the company is targeting further cost reductions as production levels ramp up over the coming years.

We rate the management of Newcrest as one of the best in the market, and have seen a significant improvement in the operations, balance sheet and profitability of the company under current management.

On April 1 it was announced that Newcrest had made a bid for Lihir Gold. Lihir's major asset is the Lihir Gold mine and deposit in Papua New Guinea. Lihir also has other smaller operations in Australia and West Africa. The Lihir gold mine has one of the largest single gold deposits in the world with a resource base of 36moz of gold and production approaching 1moz per annum. The initial bid was rejected by Lihir. Newcrest made a subsequent bid in early May which was accepted by the board of Lihir. The combined entity will be the world's 4th largest gold producer, with an annual production of 2.8moz of gold growing to 3.8moz by 2014.

The company will have some 130moz of gold resources as well as significant copper resources. In addition, the combined entity will have the highest cash margin / reserve life combination globally.

The gold price has been strong in recent times as risk averse investors steer away from riskier assets and currencies as fears of a European Financial Crisis and a slowing rate of growth in China have swept the market. The safe haven appeal of gold has increased. We believe that the gold price will remain strong as financial risks remain elevated in Europe and while the Chinese and US economic growth fears remain in the market. The gold price in addition remains a strong alternative currency to the unstable Euro.

Newcrest's financial position is sound with the balance sheet geared at only 3%. Lihir is in a similar position, being debt free. The combined entity's cashflow will be around $1.7b p.a. and it will have a market capitalisation of $24b placing it on the cusp of being a top 10 ASX listed company. Currently Newcrest is trading on a 2011 P/E of 24x and a consensus NPV of $24. This compares to a 2011 P/E of 15x and an NPV of $39 on a spot gold price basis. Gold stocks traditionally trade on up to 2x NPV. We believe that subsequent to the combination of Newcrest and Lihir, the stock will be rerated on both a premium to NPV and from an index point of view and as such we have a target price of $42 per share.

We have added to our gold position during the last quarter, as we view the gold price positively and believe that Newcrest (and Lihir) had become undervalued relative to their peers. The combined weighting of Lihir and Newcrest in the portfolio is 5%.

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