

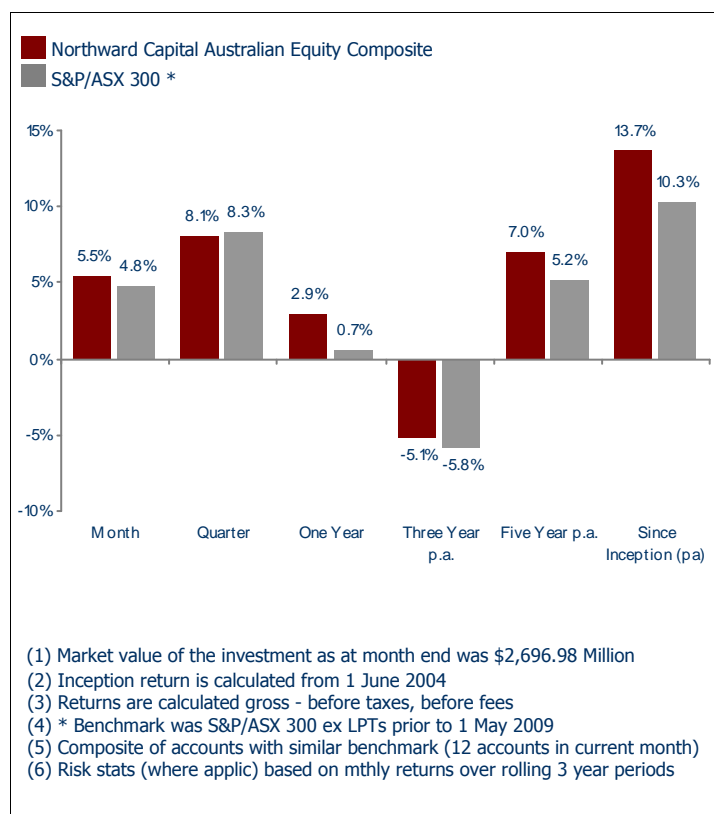
**Fund Results**

Portfolio Results	Quarter
Northward Capital Australian Equity Composite	8.07%
S&P/ASX 300 *	8.29%
<b>Value Added</b>	<b>-0.23%</b>

Stock Contributors	Overweight (+) Underweight (-)
Western Areas	+
Equinox	+
Telstra	Not held
Challenger Fin Ser	+
Centennial Coal Co	Not held

Stock Detractors	Overweight (+) Underweight (-)
Wesfarmers	Not held
Nufarm	+
Resmed	+
Ten Network Holdings	+
News Corp	+

Risk Information	
Standard Deviation	18.5%
Tracking Error	3.8%
Information Ratio	0.2



**Market Review**

The Australian market rallied strongly over the quarter taking heart from a range of more encouraging data domestically and also from Europe, the US and China. Global equities also rallied strongly over the quarter with September being the best month on the Dow Jones since 1939 as investors turned their attention to risk assets in response to strong economic data from the US and China as well as the possibility of further quantitative easing from the US Federal Reserve.

The Australian market underperformed in local currency terms, but was one of the best performers in USD terms, courtesy of a rallying AUD. Not surprisingly, global sector relative performance showed a clear trend of outperformance of cyclical sectors (Consumer Discretionary, IT, Industrials and Materials) and underperformance of defensive sectors (Telco's, Utilities and Consumer Staples). Financials, particularly banks, underperformed. In Australia it was a broadly similar story, with the notable exception of banks, which outperformed domestically.

The possibility of further quantitative easing from the Fed was signalled by statements from the Federal Open Market Committee that it "is prepared to provide additional accommodation if needed to support the economic recovery and to return inflation, over time, to levels consistent with its mandate."

**Performance Review**

Over the quarter, Northward's portfolio returned 8.07% versus the ASX300 index return of 8.29%, resulting in a slight underperformance of 23bps versus the market.

Contributors to performance included Western Areas, Equinox, Telstra, Challenger and Centennial Coal.

Data released in September continued to point to an improving outlook for global growth and this saw stronger commodity prices. This was clearly reflected in a strong AUD and copper price as the bellwethers for global growth. The outlook for Chinese growth also continued to stabilise with a number of positive data releases i.e.; Industrial Production +14% in August, FAI growth +24% in August and Chinese PMI 53.8 in September up from 51.7 in August. Resource stocks unsurprisingly did well, particularly single metal stocks reflecting their greater leverage to higher metal prices.

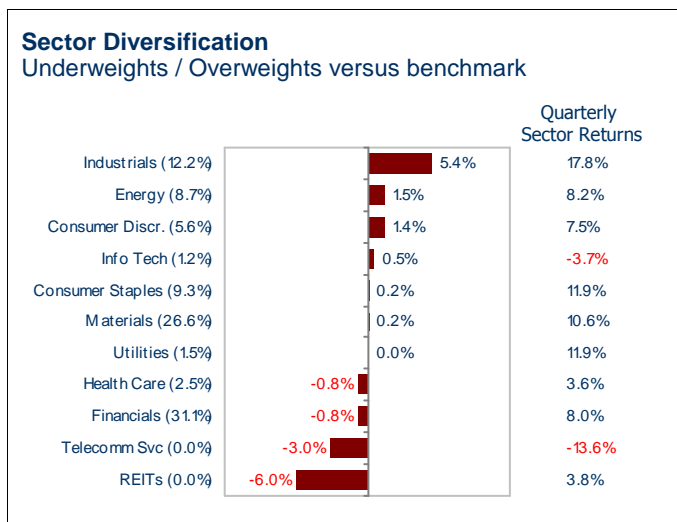
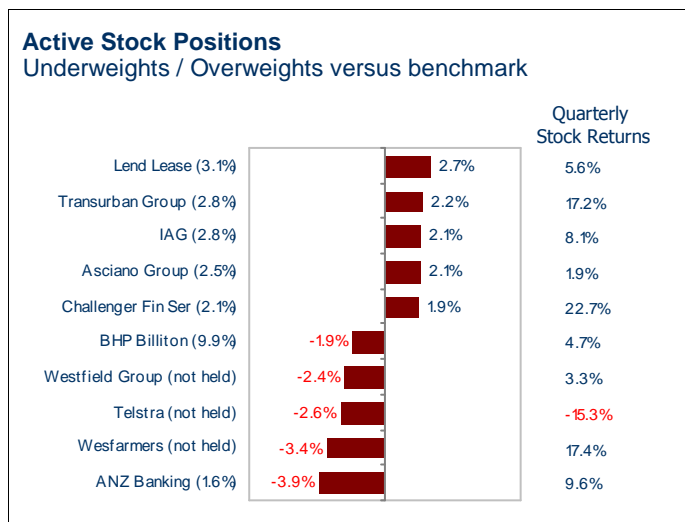
The Australian dollar rallied sharply against all major currencies on declining risk aversion, rising commodity prices and hawkish statements from the RBA who remained on hold for a 4th straight month. However, recent positive domestic data and an improving global outlook suggest more rate rises to come. The US dollar conversely was weaker against nearly all currencies over the qtr.

Virtually all major commodities posted price gains during the month. Sugar was the standout commodity, rising nearly 30% during the month on poor weather in Brazil. Base metals rallied strongly, with Aluminium and Nickel the standouts. Gold continued to grind upwards to another all time high of above US\$1,300 per ounce.

Detractors from performance included Wesfarmers, Resmed, Nufarm, Ten and News Corp.

It is pleasing to note the fund's stronger performance over the past year after a tough 2009 calendar year with positive active performance of +227bps.

**Fund Composition**



**Portfolio Strategy**

The outlook for equity investors brightened considerably over the September quarter, with important global macroeconomic data strengthening at the same time as the domestic economy which stabilised and showed signs of further growth. This saw a renewed interest in resource, energy and cyclical stocks globally. We also saw a reasonably good US reporting season, which is pointing to very solid EPS growth for US stocks in the year ahead. Many of these US companies have sizeable international operations, which are benefiting from the weaker USD and better global demand.

Here in Australia the profit season was very similar to the February reporting season, which started off softly then progressively improved. A number of companies met profit expectations but then disappointed with cautious or soft guidance for the year ahead. Banks were a little disappointing with weaker revenue momentum from credit growth and lower margins, with the exception of ANZ, while the big miners BHP and Rio Tinto posted solid results with generally upbeat guidance statements. Telco results were again poor. Metals and Mining stocks provided the most positive results and they backed this up with buoyant outlook statements. The Resource stocks increased NPAT by 43% reflecting stronger commodity prices (particularly iron ore and coal). Stocks that outperformed the broader market reflecting strong earnings, quarterly updates and/or guidance included BHP, Brambles, Coca-Cola, Amatil, Sims Metal Management, Challenger Financial Services Group, Qantas, Leighton Holdings, MAp Airports, News Corporation, United Group, Woolworths and Fairfax Media.

In terms of portfolio strategy, we have increased our weightings to Metals & Mining stocks by increasing our Overweight position to Rio Tinto and investing in Macarthur Coal, Gloucester Coal and Ivanhoe Mining for the first time. Macarthur is the only pure play coking coal listed in Australia of any size.

Peabody's previous bid was priced at \$16 per share and was de-railed to some extent by the government's RSPT tax. Gloucester has a quality portfolio of both thermal and coking coal assets, while Ivanhoe has gold, copper and rhenium deposits it is developing. We exited our very successful investment in Centennial Coal during the quarter, whilst also reducing our Overweight in our other successful coal investment in Coal & Allied. The merger of Lihir and Newcrest Mining was successfully completed over the quarter and this saw Newcrest post the best return out of any top 100 stock in September (+14%). Consequently we took some profits from Newcrest and redeployed these into BHP and also established a position in Leighton Holdings.

BHP was really the only resource laggard during the quarter, despite reporting a strong profit result and issuing positive guidance. This was due solely to its audacious bid for Potash Corp in Canada. If BHP is successful, it would diversify its asset base away from solely steel intensive construction to soft commodities demand and improving diets in Asia. It is just a question of how disciplined BHP remains and whether they can offer an acceptable price to Potash's shareholders.

We visited the US in early September and met with Brambles senior management from both Chep and Recall in California. We increased our holding after concluding the company has made good progress reinvigorating the sales force at Chep USA and are clearly addressing pallet quality concerns very seriously. We also visited James Hardie's operations in Dallas and concluded that while Hardies continues to do a sterling job growing market share, the market remains bedevilled by high real inventory and shadow inventory owned by the banks. This excess 'discounted' inventory is seriously impeding sales of new homes and thus the homebuilders, including James Hardie and Boral are all hamstrung in terms of growing sales and profits for some time.

Post the reporting season, corporate balance sheets are now robust, as they are in the US, so we expect capital management to be an increasing feature. While most management teams remain relatively cautious, it is a fact that company balance sheets have not been this under-gearred in ten years. Takeovers are likely to be a feature again and Australian companies are well positioned to acquire offshore with the AUD at 95c. On the whole, we remain positive on the Australian market after seeing all the profit results come through and also seeing Q210 US earnings also come in ahead of consensus by >11%. While the US recovery looks to be a slow, drawn out affair, the outlook for other regions to report good growth has picked up. Global growth is forecast to be around 4.4% in FY10 versus -0.9% in FY09. Despite the US being only forecast to grow around 2%, the BRICs are forecast to contribute headline growth of circa 8%.

The resources sector looks promising for the period ahead, particularly for coal and copper stocks. We like select exposures in the transport, diversified financials and insurance sectors, while operating metrics for media remain solid as the domestic economy continues to recover. We are viewing the next 12 months as being quite stock specific as evidenced by the reporting season results on a sectoral basis.

Some of our key stock picks for the year ahead include Transurban, Crown, Rio Tinto, Asciano, Challenger Financial, Newcrest and Lend Lease.

**Portfolio Activity**

Position Change	Holding	Start %	End %	Activity
Increased	Ivanhoe Australia Ltd	0.0%	0.5%	IVA raised capital during the period and we bought stock in this raising. The company is in possession of some of the most prospective mining tenements in Australia. Ivanhoe Australia is backed by Ivanhoe Mines, a company with a very strong history of discovering high quality, long life deposits. Ivanhoe owns a large portfolio of exploration prospects and is developing the Merlin Project, the highest grade molybdenum-rhenium deposit known in the world at a low capital cost. We see strong long term value in this stock.
Increased	Macarthur Coal Ltd	0.0%	0.6%	MCC was purchased during the quarter in order to maintain a weighting to coal in the portfolio, after the sale of our Centennial Coal holding. MCC is exposed to metallurgical coal used in the steel making process which remains fundamentally strong. In addition, the company is now trading significantly below the \$16 offered for a takeover by Peabody Coal. The stock remains an attractive corporate target.
Increased	Brambles	1.5%	2.1%	We increased our Overweight holding in BXB after a solid full year result and an impressive Investor Briefing in the US in September. The company has made significant improvements to the Chep pallet pool quality after implementing its 'Better Everyday Program' in October last year and has just recorded its best year since 2006 in terms of new business wins. We also view the risk posed from plastic pallet competitor IGPS as being significantly overstated by the market.
Increased	BHP Billiton	8.0%	9.9%	During the quarter, BHP made a hostile takeover bid for the Potash Corporation of Saskatchewan, for \$C130 per share. This takeover was not well received by the market and the stock was sold down and underperformed its peers over the past few months, despite reporting a strong result in August. As a result we took this opportunity to reduce our underweight position in the stock, reflecting a more positive view on the environment for commodities and energy.
Increased	Gloucester Coal Ltd New	0.0%	0.9%	We participated in the GCLN capital raising during the period. The company raised money in order to purchase the Middlemount coal project in Queensland from its parent company Noble. The price of the issue was \$9.25, which represented a significant discount to our valuation of the company, given our continued positive view on coal fundamentals. The purchase of the asset gives the company both geographic and product diversity thus reducing the "one mine" risk. The raising also added a degree of liquidity in the stock.
Increased	Energy Resources Aus	0.0%	0.7%	ERA has been a significant underperformer over the last 12 months or so. This has been on the back of a soft Uranium market and some operational issues. The price of the company has decreased to a point where we see it trading below our medium term valuation. We have seen improvements in the Uranium market and believe that Nuclear energy has an important role in a carbon constrained world. We are also of the belief that the company's operational issues are now mostly behind them.
Decreased	Centennial Coal Co	0.8%	0.0%	Centennial Coal received a takeover bid from Banpu of Thailand for \$6.20 a share early in the quarter. As the stock traded towards the \$6.20 mark, we saw the stock price becoming more of a play on the approval of the takeover by the Foreign Investment Review Board rather than on coal fundamentals.
Decreased	Onesteel	0.6%	0.0%	We sold our position in OneSteel. The company delivered a disappointing result for the year, with the steel operations being below expectations. Although the company's iron ore sales continue to be strong we believe the market will pay more attention to the steel making operations going forward and the company will not be a significant outperformer. We prefer Sims Metal Management in the steel sector.
Decreased	Coal & Allied Industries Ltd	1.1%	0.7%	We reduced our position in Coal and Allied in September. We retain a position in the stock as it remains a high quality coal stock with a strong growth profile. However the stock is relatively illiquid, and during the quarter, we took an opportunity to sell some of our stock to a large buyer at a reasonable price.
Decreased	Newcrest Mining	4.0%	3.6%	Newcrest finalised the takeover of Lihir Gold during the quarter, consequently our Lihir Gold stock converted into Newcrest mining with the successful takeover bid and we were left with a large overweight position in the portfolio. Newcrest's stock performed well after the conclusion of the Lihir deal, so we reduced our weighting, using the funds to position ourselves in stocks more exposed to improving economic conditions. (Lihir holding also effectively decreased 1.0% to 0.0%)
Decreased	James Hardie Inds	1.4%	0.0%	We exited our position in early September as the company faces pricing competition from competitors, high pulp input costs and fading building approvals strength in the near term. Additionally, the 6m homes past 60 days due in mortgage repayments remain a troubling statistic. However, in a tough environment, Hardies continue to execute well and deliver a great product, but for now there are significant market headwinds.
Decreased	Telstra	3.3%	0.0%	Telstra exited the portfolio as we became increasingly concerned over the earnings impact of increased competitive intensity in the telecommunications market. Telstra is having to reprice its traditional higher margin business and offer increased customer incentives. Also the regulatory and political outcome remains uncertain, with potential downside risk.

## Stock in Focus

**Woolworths Limited Current Market Price \$28.84**

**XKO 4,585**

**Target Price \$36.47**

Woolworths Limited (WOW) is an Australian retailer whose activities include Australian and New Zealand supermarket operations, the sale of liquor through Dan Murphy's, general merchandise through Big W stores, and consumer electronics through Dick Smith Electronics. Woolworths also owns a substantial hotels business.

Woolworths has recently announced that they will enter the domestic Hardware and Home Improvement market using a multi-format offer. The most visible element of this is their plans to develop a network of 'big box' home improvement stores through a joint venture with giant US based home improvement retailer Lowe's Companies Inc. The joint venture is targeting in excess of 150 sites within 5 years and expects to open its first store in late 2011.

We believe Woolworths' move makes sense, given the size and fragmentation of the Australian hardware and home improvement market. The intention to use experienced partners should also reduce the risks involved in being a new entrant into the market.

Currently, the Australian and New Zealand supermarket businesses still comprise over 85% of group earnings and as such are the most important component of their valuation. The supermarket industry in both countries is rational and relatively high margin with high barriers to entry. Food and liquor revenues are relatively stable and defensive, allowing for more accurate predictions of future profitability versus most listed companies.

The supermarket industry has become increasingly competitive with Coles' new management doing a good job turning the business around and growing sales off a lower base. We anticipate Coles' comparable sales growth will exceed Woolworths for some time as they take advantage of improved ranging and in-stock positions, as well as a vastly improved fresh section.

Despite this, Woolworths remains in a better position to roll out new stores and continues to grow market share.

The current low sales growth being achieved by supermarkets is largely driven by low food inflation. This low inflation and consequently low sales growth seems to be affecting both future earnings estimates and PE ratings of market analysts. However, inflation rates will pick up in time to more normal levels and forward earnings estimates and PE ratings will increase accordingly.

A primary driver of value for Woolworths is the company's ability to generate a high return on capital invested and therefore pay a solid dividend yield (currently 4.3%) and also grow earnings at a high and sustainable rate. Earnings growth has been enhanced more recently through rapid growth in liquor outlets, coupled with further efficiencies and operational leverage from the supermarkets business. Future earnings growth above what might be considered 'sustainable' for a mature business, is expected to come from further Australian supermarket efficiencies and improved NZ supermarket sales and margins as inventory management systems are bedded down.

Beyond this excess growth period, Woolworths' supermarket business could be expected to pay out a 5% dividend (at current prices) and grow sales at the long term market average of 6%. Allowing for an element of earnings leverage on this sales growth, earnings growth of 6-8% is a reasonable expectation, giving a total return of 11-13%pa.

Woolworths has a quality management team which remains focused on improving return on capital and return of excess capital to shareholders. This is highlighted by the current off-market buyback being conducted, which will distribute excess capital back to shareholders in a tax efficient manner.

### Important Legal Notice:

This report has been prepared by MLC Investments Limited ABN 30 002 641 661, AFSL 230705 ("MLCI") as responsible entity for the Northward Capital Australian Equities Trust, of which Northward Capital Pty Limited (ABN 97 113 618 938; AFSL 294368) is the appointed investment manager. This report has been prepared in good faith, where applicable, using information from sources believed to be reliable and accurate as at the time of preparation. However, no representation or warranty (express or implied) is given as to its accuracy, reliability or completeness (which may change without notice). This report does not take account of an investor's particular objectives, financial situation or needs. Investors should therefore, before acting on information in this report, consider its appropriateness, having regard to the investor's particular own objectives, financial situation or needs. We recommend investors obtain financial advice specific to their situation. Where applicable, an investor should consider the Product Disclosure Statement or Information Memorandum for the relevant product in deciding whether to acquire, or continue to hold, interests in the product and consider whether such interests are an appropriate investment for the investor, and the risks of any investment. Past performance is not indicative of future performance. Any projection or other forward looking statement ("Projection") in this report is provided for information purposes only. No representation is made as to the accuracy or reasonableness of any such Projection or that it will be met. Actual events may vary materially. Any opinions expressed by MLCI constitute MLCI's judgment at the time of writing and may change without notice.