

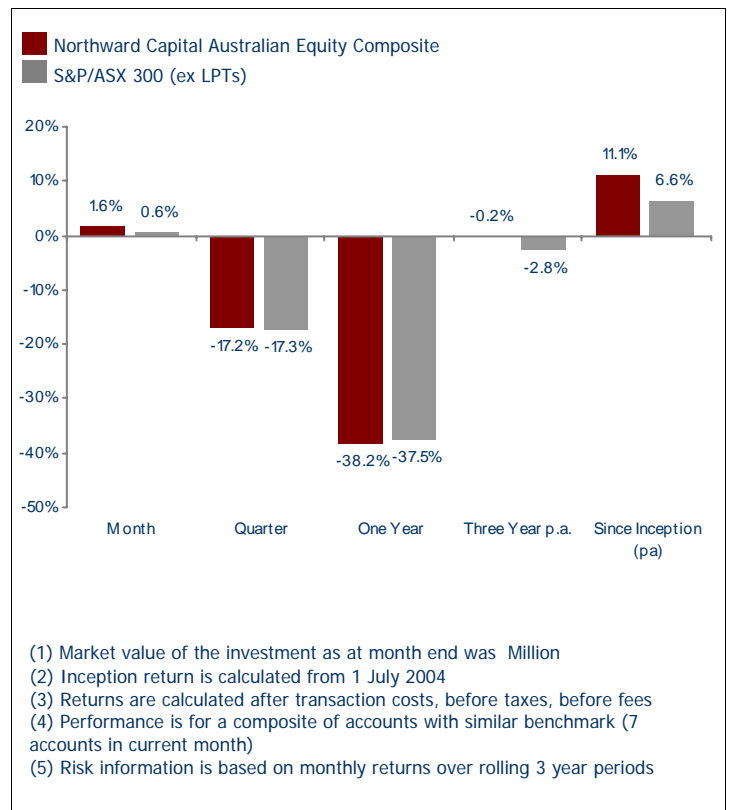
Fund Results

Portfolio Results	Quarter
Northward Capital Australian Equity Composite	-17.18%
S&P/ASX 300 (ex LPTs)	-17.33%
Value Added	0.15%

Stock Contributors	Overweight (+) Underweight (-)
Coca Cola Amatil	+
Metcash	+
Newcrest Min.	+
Woolworths	+
Wesfarmers	-

Stock Detractors	Overweight (+) Underweight (-)
Western Areas	+
Boart Longyear	+
Equinox	+
Rio Tinto	+
B&B Capital	+

Risk Information	
Standard Deviation	16.9%
Tracking Error	3.7%
Information Ratio	0.7



Performance Review

• Over the December quarter the S&P/ASX 300 (ex LPTs) declined 17.33%. Against this benchmark the Northward Capital Australian Equities Composite returned -17.18% resulting in an outperformance of 15 basis points.

• Positive contributors to fund performance over the quarter were Newcrest Mining, as investors sought refuge in gold stocks, Coca Cola Amatil after receiving a takeover offer from Lion Nathan, and Metcash who reported a solid first half profit result. Negative detractors included our overweights in Rio Tinto (BHP bid pulled), B&B Capital (Babcock & Brown association) and Equinox Minerals (lower copper price).

• One of the central themes for the market, particularly near the end of the quarter, was the number of companies undergoing equity raisings in lieu of being able to refinance their debt. Despite global central banks dramatically cutting official interest rates, credit markets continued to remain tight as, while the cost of funds has fallen as credit spreads narrowed, there was no appetite to lend. In Australia, the pull back of offshore banks' lending has been particularly noticeable as many of these banks face challenging conditions in their home markets.

• Commodity prices across the board continued to fall, apart from gold, while oil moved back to trading below \$40bbl. This increased the focus on resource companies' ability to sustain production in the face of declining selling prices, and in a few cases making losses.

• The major disappointment for the quarter was clearly Rio Tinto after BHP abandoned its proposed bid to purchase Rio. In the wake of this, Rio fell sharply and BHP rallied strongly as hedge funds moved to unwind their previous long Rio/short BHP positions, causing the market to overreact sharply.

• We did not change our overweight to Rio as a result, but sold some BHP due to extreme hedge fund short covering activity. We view the recent strength in BHP's share price as having run too hard due to the sharp declines in forecast oil, copper and iron ore earnings for BHP next year.

• The decision by BHP to pull its bid for Rio, whilst disappointing for our portfolio, was prudent to some extent given the slow progress to date on asset sales by Rio, the dramatic decline in commodity prices over the December quarter and uncertainty surrounding BHP's ability to achieve 'fair divestment values' as required by the European Commission to give a go ahead to the takeover. Our view is that Rio does not need to come to market to raise new equity like so many companies, but it does need to make a significant asset sale soon, such as its 75% stake in Coal & Allied or its 68% stake in Energy Resources Australia.

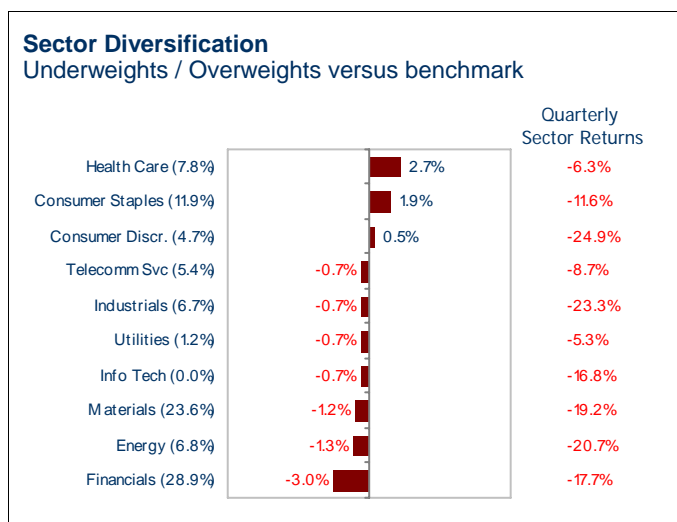
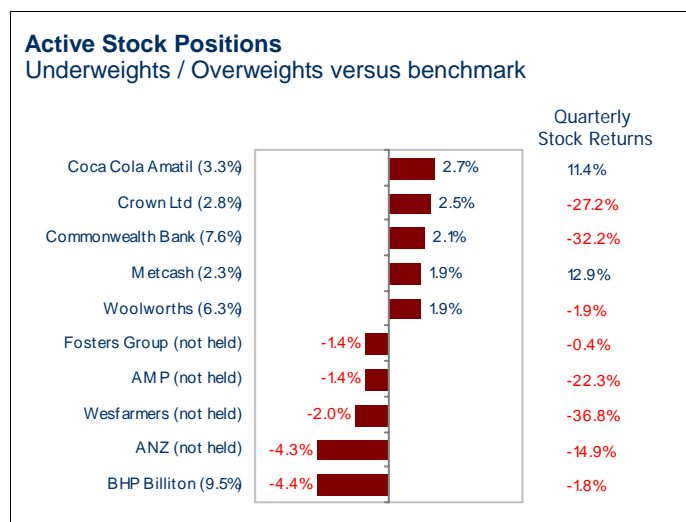
• The other significant event affecting our portfolio was a proposal from Lion/Kirin to merge with Coca-Cola Amatil, which was our largest overweight position in the fund at that time. There is real merit in the economic rationale of the deal. Both companies are beverage bottlers with extensive distribution networks Australia-wide, each has a culture of product innovation and both have strong executive management teams. The impediment to the deal is the vested interests of the two major shareholders Kirin (JPY) and The Coca-Cola Co (US). The next leg of discussion will require a satisfactory response to The Coca-Cola Co's concerns regarding custodianship of the Coke brand and a structure which supports maintaining the momentum of the non-alcoholic beverages, especially given the excellent track record of the current Coca-Cola Amatil management team. Given the stock is trading at a discount to the offer and our target price, and the business combination makes enormous sense, we intend to maintain our current overweight.

Market Review

- The December quarter continued from where the September quarter left off; completing the worst annual return on record (-43%). Not since 1930 and 1974 has the market fallen so far in one calendar year.
- Three themes dominated the last quarter – a very sharp decline in Australian and global GDP, a sharp increase in equity issuance by corporates to repair their balance sheets and a sharp sell off in commodities apart from gold.
- 2008 will probably be best known as the year global stock markets fell 50%, but it was really a year in which every major asset class - stocks, real estate and commodities - suffered significant double-digit percentage losses. Consequently we saw risk aversion in the extreme with major private sector deleveraging occurring globally.

- We are now seeing some stability returning to the market with daily index volatility at its lowest level since August.
- While Governments continued to slash official interest rates in an attempt to help stimulate their economies, the availability of debt continues to be tight. Consequently, a number of companies were unable to refinance their debt facilities and were forced to raise funds from the equity markets at huge discounts. We expect this will still be a feature of Q109 to some extent.
- The best performing sectors in Q408 were the defensive Healthcare, Utilities and Telcos sectors, while the more leveraged and economically sensitive REITs, Consumer Discretionary and Industrials sectors were the worst performers.

Fund Composition



Portfolio Strategy

- While the slowdown in global economic growth constitutes the central theme dominating current financial markets, we are now focussed on what the upcoming reporting season will look like in February. Our view is that much of the bad news is in the pricing of the market with many stocks on low single digit P/E's and dividend yields being higher than stock P/Es. More recently companies have been making deeply discounted equity raisings. This has been due primarily to offshore banks being reluctant to roll over debt facilities expiring in 2009 and early 2010 as they seek to reduce their loan exposures.
- We have participated in a number of equity raisings over the quarter as they typically offered an opportunity to purchase stock at a discount to the market and also to avoid portfolio dilution.
- We consider the Banks are likely to remain under pressure. Given the weak economic environment and unfolding weakness in commercial property markets, it is not unreasonable to expect the banks to deliver further earnings downgrades in 2009 and experience further increases in bad debts, although the big four are gaining market share. We also anticipate they will need to raise further equity to help maintain and improve their capital positioning.

- In this environment, our focus remains on looking to invest in companies with high quality balance sheets, robust cash flows, quality management and strong industry positions. However, while we consider that the outlook for companies in 2009 remains tough with pressure on earnings and margins, we are cognisant of adding some more exposure to heavily sold off cyclicals where possible.
- During the quarter we added to positions in Commonwealth Bank, Lihir Gold, National Australia Bank, Suncorp-Metway, and Crown Limited. We initiated a new position in Origin Energy due to its relatively diversified nature, strong balance sheet and valuation upside from the Liquefied Natural Gas project with Conoco Phillips. We reduced positions in Macquarie Group, WorleyParsons, Caltex, BHP and exited Wesfarmers.
- We view the recent strength in BHP's share price as overdone due to hedge fund short covering plus the sharp declines in forecast oil, copper and iron ore earnings next year. As such, we have retained our Rio weighting, whilst increasing our underweight to BHP.
- Our portfolio sector positioning has remained broadly constant through the quarter, with Healthcare becoming our largest overweight at 2.8%, while Consumer Staples remains our 2nd largest overweight at 2.0%. We reduced our Bank underweight to some extent as we invested in the Commonwealth Bank, Westpac and National Australia Bank capital raisings. Our largest underweights remain REITs and Financials.

Portfolio Activity

Position Change	Holding	Start %	End %	Activity
Increased	Origin Energy	0.0%	1.6%	We invested in ORG due to our belief in the strategic value of ORG's integrated assets and undemanding valuation. ORG is essentially debt free. The key to further share price upside is the value of the CSG LNG proposal with Conoco Phillips, which could well be worth up to \$8.00 per share potentially one day in the future.
Increased	Suncorp	1.3%	2.7%	We lifted our weighting in SUN due to our view that the breakup value of SUN far exceeded its stock price at the time. Additionally the Federal Government guarantee of bank deposits has given SUN further 'breathing room' regarding obtaining wholesale funding, thereby reducing the need for forced capital raisings or asset sales.
Increased	National Australia Bank	4.4%	5.4%	We raised our holding in NAB by taking part in the \$3bn capital raising in November. The \$20 price represented a significant PE discount to bank peers and the position was funded through the sale of other bank positions in anticipation of further capital raisings from the sector. After allowing for the earnings dilution of the raising, the PE discount and substantial improvement in balance sheet strength meant NAB had improved on our risk vs return assessment.
Decreased	Macquarie Group Limited	1.5%	0.8%	We cut our holding back to underweight in MQG due to concerns over the stock's near term market rating in the light of anticipated negative earnings revisions for FY09 and FY10.
Decreased	Wesfarmers	0.8%	0.0%	We exited our holding in WES due to concerns over the deteriorating outlook for consumer spending and expected lower demand for coking coal. Also, the slow progress to date on the Coles integration meant analysts' earnings forecasts would have to be downgraded significantly. Additionally WES's balance sheet remains highly geared after the Coles acquisition, with substantial refinancing risk still to be worked through.

Stock in Focus

PRY \$4.90 XJO 3,566

- Primary Healthcare (PRY) operates 40 medical centres housing approximately 540 GPs. PRY's centres were historically concentrated in NSW, but their reach has gradually spread into VIC and QLD.

- PRY's business model is structured around the Government Medicare system, leaving the patient with no out of pocket expenses. This pricing regime, coupled with extended hours of operation, provides patients with an attractive proposition in terms of both convenience and availability of doctors. The benefit for GPs is the elimination of the complexity in running a small business, allowing them to focus on the provision of medical services.

- PRY established a pathology business in early 2001 as a complementary service and to draw from the work initiated by the medical centres. PRY is now the 4th largest pathology operator in Australia.

- PRY recently purchased Symbion Healthcare, effectively doubling its size. Symbion's operations include radiology, pathology, medical centres, nutraceuticals (consumer) and pharmacy distribution.

- The transaction with Symbion should deliver significant synergy benefits through removing duplicated overheads of overlapping pathology and medical centres.

- Medical services in Australia are a steady business, which receive support from Government subsidies and provide a defensive income stream, organic growth and good cash conversion.

- PRY is not exposed to currency fluctuations and its earnings are unrelated to the economic cycle. PRY provides relative operational earnings certainty compared to businesses with greater leverage to the economic environment.

- PRY management have an excellent track record. They have grown the business from a single medical centre to the current 40 PRY centres via a combination of strong organic growth and acquisitions. The purchase of Symbion also provides a nationwide diagnostics network around which PRY can rollout a medical centre network, with the ability to leverage the pathology and radiology infrastructure, making the rollout more profitable.

- Given Symbion's larger and successful pathology business the head of the combined pathology business has been selected from within Symbion.

- PRY's management team has historically contained a number of doctors. This has proven to be a successful strategy in regards to both the communication with doctors and in developing the corporate culture. In the healthcare arena management teams that included doctors have often proven to be more successful.

- PRY's FY08 EBITDA (excluding Symbion) was \$122m, up 15% on 2007. In 2009 and 2010 this will lift significantly with the integration of the Symbion business. Further, in valuing the business, given the magnitude of the synergies, it can be argued that the stock valuation should be based on 2010 earnings.

- PRY has historically traded at a premium to the market due to the steady industry demand growth, organic growth provided by the medical centre rollout, and the quality of the management team. Given the industry dynamics, strong cash flows, management quality and expansion potential, we expect PRY will continue to trade at a reasonable premium to the market in future.

- Our 12mth price target for PRY is \$6.10 providing a Total Expected Return of 28%.

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