

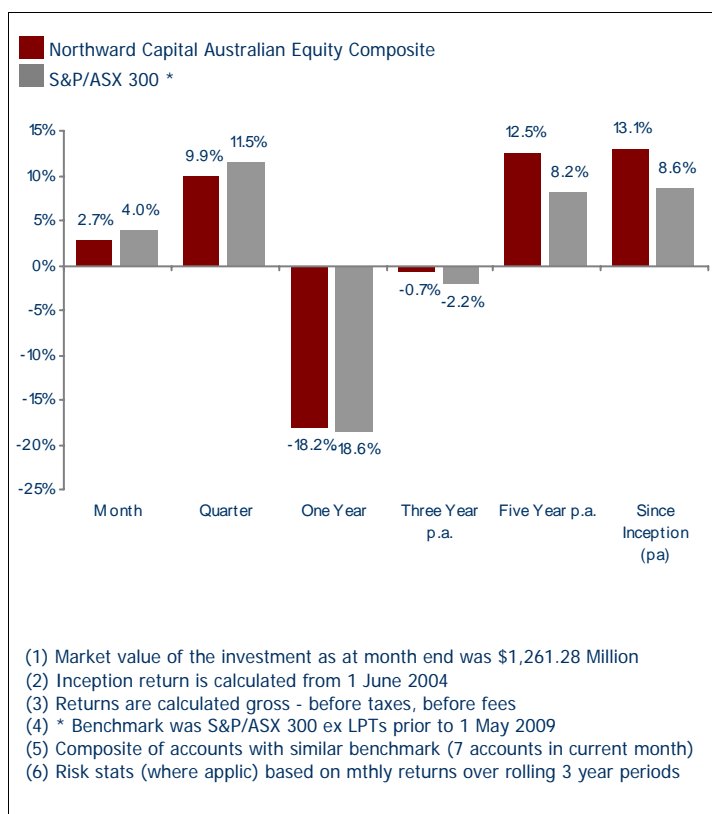
Fund Results

Portfolio Results	Quarter
Northward Capital Australian Equity Composite	9.92%
S&P/ASX 300 *	11.46%
Value Added	-1.54%

Stock Contributors	Overweight (+) Underweight (-)
Western Areas	+
Equinox	+
Macquarie Airports	+
Eircom Holdings Ltd	+
Santos Ltd	-

Stock Detractors	Overweight (+) Underweight (-)
Wesfarmers	-
Orica Ltd	-
Lihir Gold Limited	+
Macquarie Group	-
Nufarm	+

Risk Information	
Standard Deviation	17.1%
Tracking Error	4.0%
Information Ratio	0.4



Performance Review

Over the June quarter the S&P/ASX 300 gained 11.5%. Against this benchmark the Northward Capital Australian Equities portfolio composite returned 9.9% resulting in an underperformance of 154 basis points.

Whilst it is pleasing the market has now stabilised to some extent with investors 'looking over the valley', the near term picture remains clouded with a difficult earnings reporting season just around the corner and mixed data continuing to come out of the US.

Whilst we were disappointed the fund lagged the strong risk rally led by the cyclicals, we do feel at this juncture it is a case of 'too much, too soon' and expect a period of consolidation for the market over the next quarter.

Significant contributors to fund performance over the quarter included:

- Western Areas – outperformed based on significantly higher Nickel prices (+70% to \$7.06lb).
- Equinox Minerals – benefited from its leverage to the Copper price (+32% to \$2.24lb).
- Macquarie Airports – signs of improving traffic conditions and sale of Jatoil Limited stake at near book value helped support MAP off a low base.
- Eircom – outperformed post the approval of the management internalisation, which helped close the discount to cash backing and an emerging belief behind the option value in the potential sale of ERC.

- Crown Limited – rallied strongly post renegotiation of the Cannery deal, a successful capital raising and the opening of the 'City of Dreams' in Macau.

- Asciano – significant rebound as investors' confidence in AIO's viability sharply increased. Their massive equity raising eliminated the risk of the \$2.2bn April 2010 debt rollover.

Significant detractors to fund performance over the quarter included:

- Wesfarmers – improved performance and market share gains from Coles along with improving coal prices.
- BHP – benefited from strong base metal and oil prices on the back of Chinese Strategic Reserve Board buying and US dollar weakness. BHP also benefited from the news of their agreement with RIO to merge Pilbara Iron Ore operations.
- NAB – outperformed the market in line with the improved confidence around market conditions despite their earnings being down on expectations on the back of increased charges for bad and doubtful debts.
- Nufarm – equity raising and subsequent downgrades hurt, as NUF suffered from delayed purchasing from farmers, excess glyphosate inventory in the supply chain and Chinese competition.

Market Review

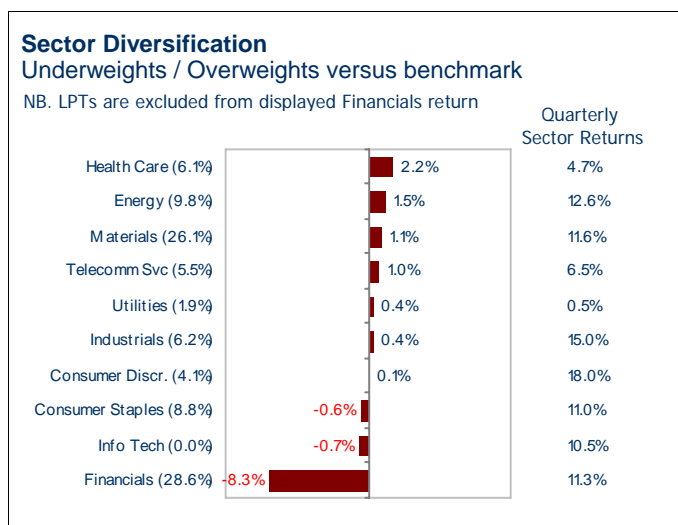
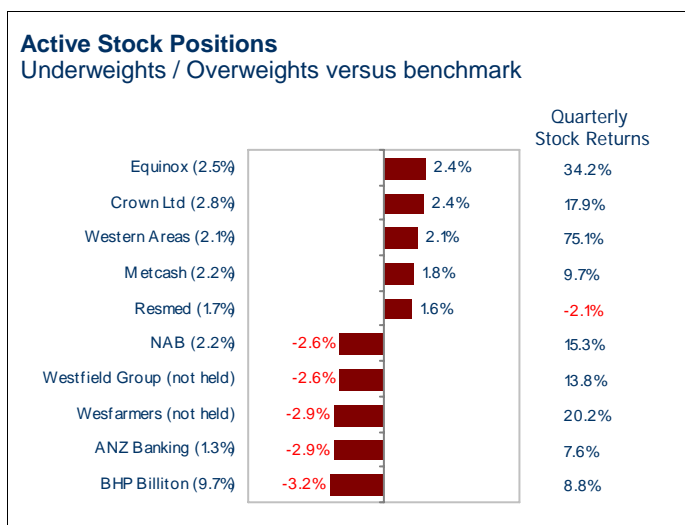
The market continued its rally over the June quarter following on from March's strong lead. This broke the streak of six straight negative quarters – the worst streak since 1952. Key drivers of the rally included Government and Central Bank stimulus, lower gasoline costs and cheaper interest rates on mortgages.

Some global lead economic indicators started to show some more positive signs and the TED spread (the difference between the three-month T-bill interest rates and three-month LIBOR) also declined to levels pre the demise of Lehmans last September – around 30bps, indicating that banks are beginning to lend to each other again.

The AUD broke a run of three down quarters posting a gain of 17% against the USD to end June at US81c, nearly 30% above its early March low of US62c. This reflected the large amount of money being printed by the US Government pressuring the USD, a recovery in risk appetite and stronger commodity prices, despite the RBA easing during the quarter. Commodities also benefited from the Chinese Strategic Reserve Board buying for stockpiles, which has now come to an end.

The best performing sectors over the quarter were Consumer Discretionary, Industrials and REITs, while Telcos, Health Care and Utilities underperformed. The stronger sectors contained a number of cyclical stocks with higher risks to near term earnings delivery and currently depressed/bottom of cycle earnings with investors looking to buy on recovering mid-cycle earnings.

Fund Composition



Portfolio Strategy

Amongst investors there is much debate about the likely shape and duration of the economic recovery globally. Since the rally commenced on 9 March 2009 global growth expectations have improved, confirming investors earlier more optimistic, mean reversion-based contrarian investing. The turning inventory cycle is at present the major driver of the cyclical recovery. Economic data and other indicators strengthened over the qtr with US consumer confidence, Japanese IP, declining copper inventories, stronger CRB prices and lower TED spreads, while in Australia we saw improving housing finance and building approvals numbers as highlights. However, some of this short term stimuli seems to have now run its course – ie; Chinese Strategic Reserve Board commodities buying and the effect on new housing in Australia at the <\$500k level. The key remains an ongoing improvement in the global credit markets and this seems to be happening with significantly lower LIBOR rates, greater corporate bond issues and falling credit spreads.

While the US economy is well along on the road to stabilisation, it is not free of potholes. The two most important patches to look for over the next quarter are: (1) sequential increases in retail sales (other than vehicles), and (2) more evidence of labour market improvement, particularly in a lower level of initial claims and a significant slowing in the rate at which continuing claims are rising. Historically in the recovery phase cyclical sectors such as Financials, Energy, Materials, Industrials, Consumer Discretionary, Information Technology have outperformed, while defensives such as Healthcare, Consumer Staples, Utilities and Telcos have lagged. This seems to be playing out again this time around, but we feel this thematic has now largely run its course for the immediate future with some large stock price gains now retracing. In terms of our portfolio we have increased the fund's exposure to select cyclicals ie: News Corp, Woodside Petroleum, Asciano, Crown, OneSteel, Macquarie Airports, ASX and Worley Parsons, which we funded via reduced overweight to some defensives CSL, Coca-Cola Amatil and Woolworths.

Portfolio Activity

Position Change	Holding	Start %	End %	Activity
Increased	SP Ausnet	0.0%	1.0%	We invested in SPN for the first time – see stock story later in this report.
Increased	Telstra	3.8%	5.3%	Telecommunication expenditure is relatively less affected by the slowing economic environment and, Telstra has continued to perform solidly in the marketplace, generating strong cashflows from its suite of products, notably mobiles and broadband. While regulatory and political risks remain, new management provide increased confidence of less adverse outcomes. We increased our weighting in the low \$3 range, where Telstra's single digit FY10 PE and robust dividend yield appear to have adequately priced in these risks.
Increased	Oil Search	0.0%	1.6%	We established a new position in OSH during the quarter. The PNG LNG partnership, of which OSH is a 34% stakeholder, signed a Benefit Sharing Agreement (BSA) with the local PNG landholders, therefore removing a major risk to the project in our view. An agreement to commercial terms for LNG with Asian customers was also announced. Given these milestones, we consider the project will go ahead on time, and that the possibility of further expansions has been accelerated.
Increased	Asciano Group	0.0%	0.7%	We initiated a position in AIO in April at 90c. We view the company's assets as being essential infrastructure with duopoly positions in ports and rail. The stock price had been heavily oversold due to concerns about rolling over syndicated debt of \$2.2bn in April 2010. The company's monetisation process was finally resolved via a huge equity raising, which has resolved gearing concerns taking net debt:EBITDA down to 3.0x. We consider the company has a strong growth profile for FY10 and FY11 via new Qld coal contracts, as well as good leverage to an eventual recovery in port volumes.
Decreased	AMP	1.0%	0.0%	We exited a modest position in AMP, partially as funding for up weighting in Telstra position and partially reflecting concerns over valuation, given ongoing lacklustre market conditions and threat to pricing/industry structure from government reviews.
Decreased	NAB	3.7%	2.1%	Northward reduced its bank sector weighting during the June quarter following a significant bank sector outperformance of the market during the preceding quarter. A large part of this sector reduction was achieved through selling NAB due to its small valuation discount relative to peers, despite its higher risk domestic business mix and UK exposure.
Decreased	Woodside Petroleum	3.7%	1.9%	We decreased our position in WPL to effectively fund our purchase of OSH. The fund still maintains a position in WPL. Over the past few months WPL has achieved several milestones including the raising of debt to cover the capital requirements of the Pluto LNG project and the discovery of a new gas field off Western Australia. The stock price has been driven as well by a rising oil price. We believe in the near term there are more company related valuation catalysts for OSH than there are for WPL and hence our larger exposure to OSH.

Stock in Focus

SP AusNet (SPN) \$0.77 XJO 3,954

The Northward Australian Equities Fund has recently purchased SP Ausnet (SPN) as a holding for the first time. SP AusNet is a diversified energy infrastructure business, owning and operating Victoria's primary electricity transmission network, as well as an electricity distribution network in eastern Victoria and a gas distribution network in western Victoria. Singapore Power International Pte Ltd, a wholly-owned subsidiary of Singapore Power Limited, owns a 51% interest in SP AusNet.

The electricity transmission business earns revenue from network charges that are independent of the actual volume of electricity transmitted whilst the electricity and gas distribution businesses returns (between reset dates) are dependent on actual volume distributed. Over 90% of SP Ausnet's revenues are regulated, providing stable and predictable cash flows. The regulatory reset periods are also diversified with the electricity distribution reset in 2011 being the next in line. The gas distribution reset is in 2013 with the electricity transmission review in 2014.

Following SP Ausnet's recent equity raising of \$408m, the capital structure is now in a sustainable position to fund modest growth capital expenditure and also pay a distribution yield of around 10%. The dividend is expected to grow by around 1% per annum.

As a regulated utility, regular reset periods allow any variation in debt costs to be passed through to customers, leaving equity holders earning the regulated 'Cost of Equity' on the equity capital funding the business. This provides a very high level of certainty around returns versus other investment opportunities.

SP Ausnet is managed by an external management company which is wholly owned by Singapore Power. Whilst we prefer internal management models, the management fee compares well with other Infrastructure and Utilities fees, and the full 'Management Services Charge' is allowed by the regulator as an expense and therefore included in building block revenue. A performance fee linked to operational, financial and market performance is also payable to the management company. This fee is now capped at 0.5% of market cap and was previously 0.75%.

SP Ausnet's gearing at 70% of Regulated Asset Base is considered appropriate and conservative relative to peers. SP Ausnet's credit rating is A- (S&P) which is higher than the BBB+ assumed by the regulator in assessing debt spread costs. No additional debt is held at the holding company level. The asset level debt is made up of corporate bonds and bank facilities and we foresee little risk around the next major refinance of \$775m in March 2011.

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