

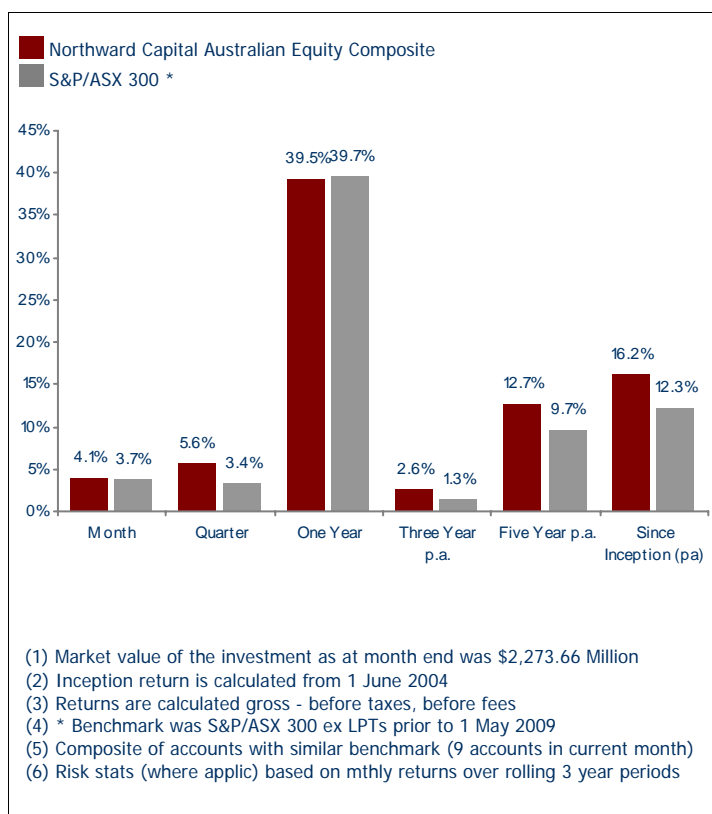
Fund Results

Portfolio Results	Quarter
Northward Capital Australian Equity Composite	5.64%
S&P/ASX 300 *	3.37%
Value Added	2.27%

Stock Contributors	Overweight (+) Underweight (-)
Rio Tinto	+
NAB	-
Macquarie Group	-
Westfield Group	-
ANZ Banking	-

Stock Detractors	Overweight (+) Underweight (-)
Brambles	+
AXA Asia Pac Hldgs	-
BHP Billiton	-
Crown Ltd	+
Wesfarmers	-

Risk Information	
Standard Deviation	17.5%
Tracking Error	4.3%
Information Ratio	0.3



Performance Review

Northward's portfolio performance pleasingly recovered over the December quarter with the market range-bound between 4,500 and 4,900. Over the December quarter the S&P/ASX 300 gained 3.37%. Against this benchmark the Northward Capital Australian Equities Composite returned 5.64%, an outperformance of 227 basis points.

We had said in October that "We think the large macro trade is stabilising and that the focus will be firmly back on individual company thematics and prospects for better earnings and return on capital, as opposed to just buying all stocks loosely associated with the 'buy risk trade'". This proved to be the case and we now feel we are entering a period which is more suited to our bottom up stockpicking style as the large macro trade has largely run its course.

Cyclicals have outperformed as investors chased leverage and P/E's expanded thereby 'lifting all boats'. In 2010 the focus will revert back to stocks with earnings upgrade potential and sustainable growth moving beyond the 2011 recovery.

Significant contributors to fund performance over the quarter were:

Rio Tinto - performed strongly as key Rio commodities rallied strongly - copper (+18%), aluminium (+19%) and iron ore spot prices (+39%). The iron ore spot FOB netback to Australia now stands at >US\$100/t, which is an 80% premium to the current Australia/Japan benchmark for Pilbara Blend fines. BHP and RIO also signed binding agreements on the proposed Pilbara iron ore JV.

National Australia Bank - their September half results showed rising interest margins, but weak lending volumes outside housing and continued growth in provisioning. NAB's price came off sharply in December after they launched a bid for AXA's Australian Assets.

ANZ - reported cash earnings of \$3.4bn yr to Sept, up 11.7% y/y. ANZ noted that the economic slowdown is continuing to play out as expected with bad debts emerging from highly leveraged entities and

more recently the commercial sector and higher-risk personal customers. Stock had gained +48% in Sept qtr before pulling back 6% in Dec qtr.

Macquarie Group - reported A\$479m HY10 profit, ahead of \$436m guidance. Despite recent acquisitions, MQG expects similar 2H10 profit as trading conditions in many businesses in the Sept half were favourable. Dec qtr underperformance reflected conditions were already priced in.

Equinox Minerals - performed strongly as the copper price rallied strongly (+18%) and supply side constraints once again reared their head. The company also released its 3rd quarter production results which showed early signs of performance improvement as well as making two new senior operational management appointments during the quarter.

Significant detractors to fund performance over the quarter were:

Brambles - had run hard in Sept qtr (+38%) and drifted back over Dec qtr (-16%) after higher spend announced in Chep USA Review on 6 Oct.

Wesfarmers - the WES share price has been reflecting positive sentiment towards both the food and liquor business and the resources business. Food and liquor sales have been very strong, but much of this is driven by a change in strategy towards discount liquor sales. Strong commodity pricing is continuing to benefit earnings forecasts for the coal business.

AXA - received an offer from AMP and its French parent at a 31% premium in November, before receiving a higher competing proposal from NAB in December. The fund did not hold either AXA or AMP.

BHP - BHP performed strongly due to improvement in iron ore prices and general strength in metal prices (+14% vs Rio +26%). BHP and RIO have signed binding agreements on the proposed joint venture that would combine their Western Australian ore operations.

Crown - essentially unwound the corporate premium built into the stock when Jamie Packer upped his stake at \$9.00 in early October.

Market Review

The market 'took a breather' for the Dec quarter as investors digested the amazing 49% rally off the March lows. The banks and REITs finally gave back some of their strong +30% Sept quarter gains, while Resource stocks posted strong gains as commodity prices rallied further.

Key themes during the quarter were the re-emergence of large scale M&A with AXA being the subject of a bid from AMP then NAB, while Sinochem went one step too far in calling Nufarm's bluff by dropping their bid price by \$1, enabling the entrance of Sumitomo.

China's financial firepower defined the M&A landscape in Australia over 2009 as they acquired Felix and took cornerstone stakes in a long list of resource stocks that got squeezed through the crisis.

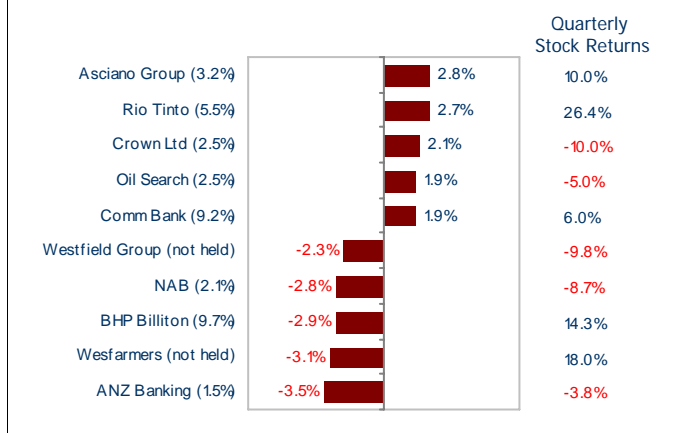
Key pieces of economic news the market took positively were clearly the unexpectedly low November non-farm payrolls figure in the US of -11,000, while US unemployment edged down to 10.0% in November. The ISM manufacturing index also rose to 55.9 in December – above consensus - its highest level since May 2006 and has remained above the 'expansionary' 50 level since.

Here in Australia good news continued when the unemployment rate moved down from 5.8% to 5.7%. Any talk globally about governments reaffirming their commitment to fiscal stimulus was taken positively by markets as investors are keen to ensure there is no chance of a 'double dip recession'.

Fund Composition

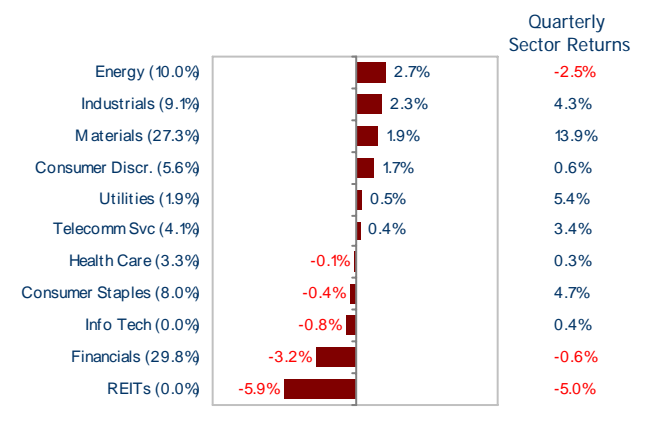
Active Stock Positions

Underweights / Overweights versus benchmark



Sector Diversification

Underweights / Overweights versus benchmark



Portfolio Strategy

The starting point for 2010 is that we are entering a period of strong synchronised global growth. Expectations are for global GDP growth of >4% driven principally by China, India and Latin America. The consensus 2010 growth forecast for the US is a modest 2.5%, which is muted when one considers that previous US economic recoveries have typically averaged over 6%.

Over the past month, it is increasingly clear that the US economy has responded positively to the 'cash for clunkers' stimulus; while manufacturing, trade, business and consumer sentiment statistics are confirming the V-shaped recovery. We do not see the prospect of a 'W' recession - all governments continue to stress the need for continuing the fiscal stimulus and seem to have heeded the lessons from past policy errors in the US (1930 and 1981) and Japan (1990's).

In Australia the RBA decision to raise the official cash rate for the third consecutive month, highlights the strengthening Australian economy. We expect the stockmarket will rally higher in 2010 with operating leverage holding the key to earnings growth for many stocks going forward. The initial stages of the equity market recovery have been characterised by P/E multiple expansion, led by cyclical sectors such as building, housing and retail.

Investors, including ourselves, are more confident about the strengthening outlook for earnings with the major focus being earnings in FY11 as this will be the first 'normalised' year of earnings in the recovery. Clearly there are some potential challenges ahead such as the currency, rising interest rates, potential domestic inflation and China overheating, but on balance there is good reason to be optimistic about Australian shares in 2010.

The prospective P/E across the broader industrial market has reverted back to its long term average (~15x), despite the fact that earnings remain close to cyclical lows post FY09. The market should trade at a reasonable premium at this stage reflecting the low margins and ability to achieve above average earnings growth over the next 2-3 years. For FY11 we estimate the S&P/ASX200 Index is trading on 12.8x eps with ~20% growth.

We have increased our portfolio exposure accordingly to metals and mining stocks, transport, media, wealth management and building materials over the year at prices we believe offer good capital return prospects. We continue to be materially underweight REITs and banks due to concerns over valuations and our belief that greater potential upside is to be found in Industrials, Materials and Energy stocks.

Portfolio Activity

Position Change	Holding	Start %	End %	Activity
Increased	Henderson Group	0.7%	1.0%	We increased our weighting in HGG due to the recent price pull back. HGG is viewed as good value amongst the wealth managers and had been under pressure due to the departure of one of the high profile New Star portfolio managers. Historically the turnover of portfolio managers has been low, and many of the investment team have been allocated equity through the staff incentive scheme. Given the diverse nature of the equities business and the investment in multiple asset classes, the departure, whilst disappointing, is not material in the medium term.
Increased	Oil Search	1.7%	2.5%	After completing a field trip to PNG during the quarter we are confident that the OSH share price does not adequately reflect the value of the PNG LNG project. Further project milestones being reached and additional growth options being announced will drive the realisation of this value.
Increased	News Corp	0.5%	0.8%	We increased our weighting in NSWLV shares as these were trading at a very high 15% discount to the ordinary voting shares. NWS's 2nd quarter result beat consensus by nearly 10% with Operating Income of \$1.04bn, up 9% YOY. Most of the gains came from Filmed Entertainment and Cable Networks. Management also raised guidance for growth in operating income to 'high single digit to low double digit'.
Increased	James Hardie Inds	0.8%	1.2%	We increased our weighting ahead of Hardie's very strong 2nd quarter result. Margins were again >28% in the US and we are clearly moving off the bottom in terms of US housing starts. Hardies also pointed to strength and confidence in the Australian housing market and expect a strong 2nd half result.
Increased	Sims Group Ltd	0.0%	1.4%	SGM was added to the portfolio during the quarter. We envisage the recovery in Global IP and tight iron ore markets will drive scrap metal prices higher during 2010. The recovery in industrial activity, particularly in the US, will also drive SGM's margins higher as the sourcing of scrap by SGM becomes more efficient. SGM's strong balance sheet, enhanced by a recent equity raising, also allows the company value adding acquisition flexibility.
Decreased	CSL Ltd	2.0%	0.8%	We switched out of CSL into HGG. CSL experienced pressure on earnings due to a number of factors. As a result of the rising AUDUSD earnings growth is likely to be 0%-5% in FY10, reducing the growth rate by approx 10%-15% at current rates. Additionally, blood donations are paid in the US, so as unemployment has risen so have donations (as a form of income), which is resulting in plentiful supply and flat plasma product prices. US demand growth has also softened slightly due to the reimbursement regime.
Decreased	Telstra	5.2%	4.0%	The announcement by the government that it is in constructive talks regarding TLS's involvement with the NBN is positive and should ultimately result in lower regulatory risk (and a higher share price) for TLS. However, TLS has modestly reduced earnings guidance due to competitive pressures and regulatory issues will take some time to resolve. Although we have reduced the size of our position, we remain overweight and see valuation as supportive.
Decreased	Newcrest Mining	2.6%	2.2%	We reduced our holdings in NCM during the quarter in order to take some profits from the significant gain in the gold price. Although we see NCM as a strong outperformer over the medium term due to its low cost and long life reserves, we believe that the gold price may have a short term pull back as the US dollar consolidates after a significant sell off.
Decreased	Origin Energy	3.0%	2.3%	We continue to believe that the ORG management will add value to the company via the LNG joint venture and the upcoming NSW retail energy sale process. However, we decreased our holdings in ORG to fund our increase in OSH as we believe the PNG LNG project will add value ahead of ORG's LNG projects. We believe a key to ORG's performance is not only further development of their own LNG project, but also the ability for them to collaborate with other LNG players in Queensland to make significant capital cost savings.
Decreased	Whitehaven Coal Ltd	0.7%	0.0%	We sold our holding of WHC during the quarter. The original line of WHC was purchased in a company capital raising. The stock had appreciated some 35% since the placement and had reached our target valuation.

Stock in Focus

Coal & Allied CNA \$79.00 (XJO 4,803)

Coal and Allied (CNA), is a major Hunter Valley Coal miner, producing predominantly thermal coal (used for generation of electricity) for sale to mainly export markets. CNA also produces coal for steel making in the form of semi-soft coking coal. The company is majority owned by Rio Tinto (76%) and is managed by Rio Tinto Coal Australia. The company produces some 24 million tonnes of coal (on a 100% basis or around 18 million tonnes on an equity basis) per annum.

CNA's production over the last few years has been relatively flat due solely to the constraints in the Hunter Valley Coal Chain (rail, track and port). The upcoming 12 months should see improvement in the infrastructure capacity as Port Waratah (the existing port) increases its capacity, and the second Newcastle port (NCIG) begins operations. CNA has excess capacity within its system to take advantage of increases in port capacity (and also to deliver into unallocated tonnes from other coal mines).

The thermal coal market is currently tight due to a number of factors. A surge in demand from China due to supply issues within the country, general improvement in economic conditions globally, an increase in demand from India and a 'pull through' from the coking coal market where supply and demand conditions are extremely tight. CNA also possesses the flexibility in its production profile to produce a higher percentage of coking coal to take advantage of robust markets.

Supply side conditions remain fragile due to the infrastructure constraints present in Australia and South Africa. The current 'spot' price of thermal coal is ~\$US86/t. This compares to the current contract levels of around US\$70/t. CNA sells the majority of its product on a contract basis.

CNA has a strong balance sheet with no debt. The company recently announced the sale of its undeveloped Maules Creek project for an after tax amount of \$340m. Subject to the receipt of this cash CNA will have around about \$1 billion of cash on its balance sheet. The company has several large growth projects in front of it, including the 10.5mtpa Mt Pleasant mine, slated to begin production in 2014. However given the large amount of franking credits available to the company as well, it is expected that some form of capital management, most likely a fully franked special dividend, will be paid early next year.

CNA trades on a CY11 P/E of 12.6x. Given a strong thermal coal market, an improving infrastructure environment, a solid growth profile and flexible production capacity and the potential for a high dividend, CNA is rated one of our top coal company investments. Our target price is \$100 giving a Total Expected Return of 30%.

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