

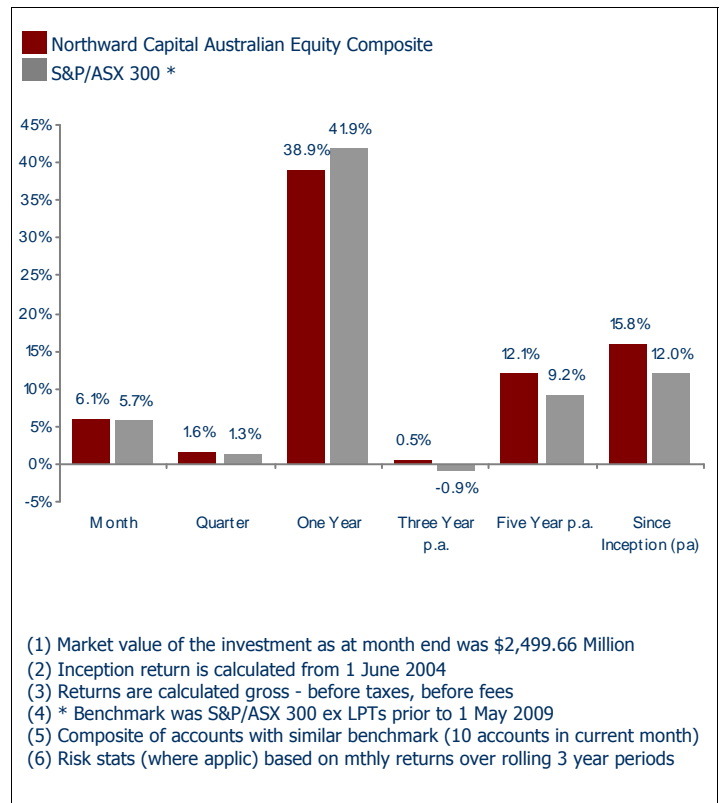
**Fund Results**

Portfolio Results	Quarter
Northward Capital Australian Equity Composite	1.62%
S&P/ASX 300 *	1.25%
<b>Value Added</b>	<b>0.37%</b>

Stock Contributors	Overweight (+) Underweight (-)
QBE Ins Grp	-
Resmed	+
Seek Ltd	+
Westpac Bank	+
Rio Tinto	+

Stock Detractors	Overweight (+) Underweight (-)
James Hardie Inds	+
Challenger Infrastructure	+
Lend Lease	+
Nufarm	+
ANZ Banking	-

Risk Information	
Standard Deviation	18.2%
Tracking Error	4.3%
Information Ratio	0.3



**Market Review**

Australian equities spent the first quarter of 2010 in a trading range between 4,459 and 4,950 before a strong rally to end the quarter.

Banks were the best performing sector (+5.8%) as investors grew more sanguine about loan loss risks, while resources (+0.3%) lagged due to concerns about China's need to tighten monetary policy and clamp down on lending. However, they finished the quarter strongly due to strong bulk commodity pricing upgrades. BHP's (and Rio's) agreement with customers to shift from annual benchmark pricing for iron ore to a quarterly price based on spot is a landmark change.

Telcos brought up the rear (-12.8%), reflecting Telstra's underperformance from a poor operating result and regulatory concerns.

The Australian December earnings reports saw positive surprises outweighing negative ones broadly 2:1, but guidance remained cautious. As a result we saw further earnings upgrades occurring, which has effectively pulled forward part of the FY11 earnings growth story into the FY10 year.

NAB and AXA SA formalised the terms of NAB's takeover of the Australasian assets of AXA Asia-Pacific. The ACCC will opine on both the NAB and AMP proposals later in April.

On the economic front, the RBA surprised many forecasters by leaving the cash rate target unchanged at its February meeting, but resumed the tightening cycle in March with a 25 bp hike to 4.25%.

**Performance Review**

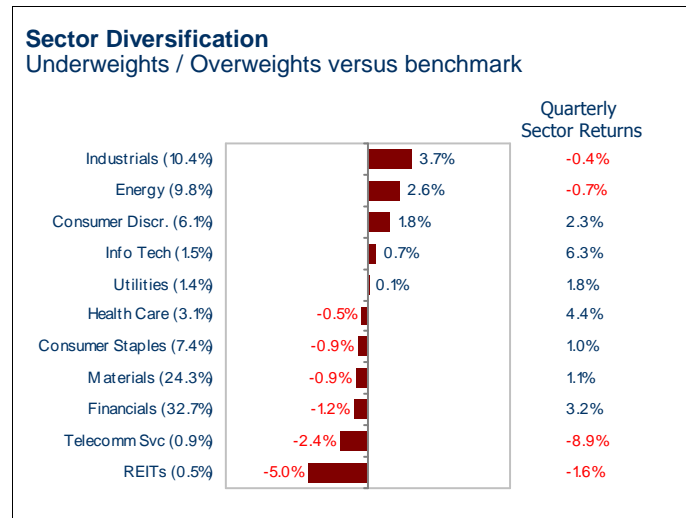
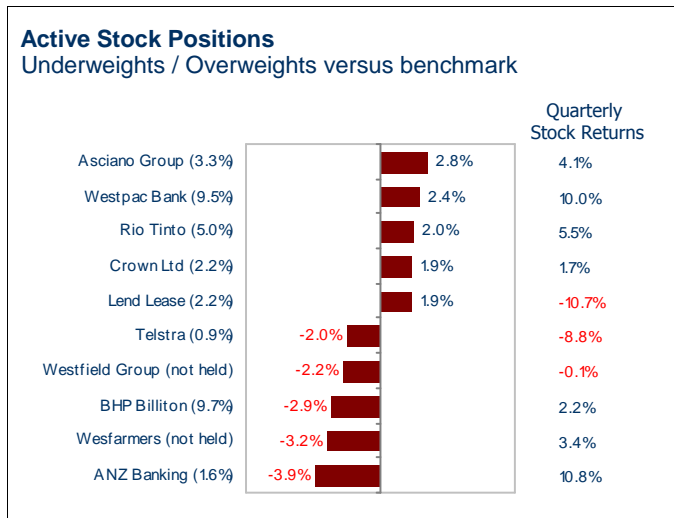
Over the quarter Northward's portfolio performance returned 1.62% vs the ASX300 return of 1.25%, resulting in an outperformance of 0.37%. A number of recent additions to the portfolio have added material value – stocks such as Seek, Computershare, Ten Network, Challenger Financial Group, Coal & Allied to name a few.

The stock market is now entering the earnings growth delivery stage and we are starting to see the market differentiate between basic cyclical and stocks with better earnings prospects and ROE.

For example, some stocks in the same sector have been flat since September 30 last year, whilst others are up +30%. This is very much a stockpicker's market now, where underlying investment fundamentals and future prospects are paramount again.

Significant contributors over the quarter included QBE, ResMed, Seek, Coal & Allied, Westpac and Rio Tinto. Significant detractors over the quarter included ANZ, Nufarm, Lend Lease Group, James Hardie and Challenger Infrastructure Fund.

**Fund Composition**



**Portfolio Strategy**

The Australian economy continues to recover strongly and policy normalisation is well and truly under way, while evidence of the global economic recovery continues to accumulate. Better than expected recent data in the US has included retail sales and the ISM manufacturing and services surveys. The USA economy ISM is at 56 - consistent with GDP of around the 4% (above the current consensus of ~3%). The recent return to positive payrolls growth in the US is a further sign that the economic recovery is firmly underway. Positive payrolls growth is typically a positive backdrop for equities.

The corporate earnings story remains very positive. The US earnings upgrade cycle is now 10 months old, but still has further to run, in our view. We expect another good US reporting season with further evidence of revenue improvement taking the baton from aggressive cost control. FY11 is shaping as a strong year as well for Australian corporate earnings. At present the market is trading on a reasonably conservative FY11E multiple of 13x (vs long run average 14x), with the risk to estimates still to the upside.

On average, the results for the reporting season were pleasing. The market heavyweights – miners BHP and Rio Tinto, and banks CBA and WBC – led the market with stronger than expected results, which saw resultant EPS upgrades. This set the tone for a positive season to follow.

Despite the strong rally of the market over the past year, valuations remain undemanding. Additionally the turnaround in the leverage of the Australian listed balance sheet from 18 months ago has been remarkable; assisted by the large, deeply discounted rights issues of CY08 and CY09 (in excess of A\$150bn was raised), the significant cuts to dividends, and now the improving state of operating cashflows; gearing ratios are falling sharply. Net debt to equity forecast for FY10 forecast ~32.6% is at a level not seen since the 1970s.

The major near-term risk to the global recovery in our view comes not from the US or other OECD countries, but out of China. China was the first to recover due to negative real rates and a large fiscal stimulus. While the huge price settlements for bulk commodities are good news for the major miners currently, there does appear to be a property bubble in a number of Chinese cities based on median price to median income statistics.

It is also hard to believe the Chinese SOEs have not made some undisciplined loans given the huge amount of fixed asset investment in such a short space of time last year. Clearly the Government is concerned that the economy is overheating and asset bubbles are developing in the property market, which was fuelled by nearly 10 trillion Yuan in bank lending last year. Last year's record banking lending was double the previous year, and represented nearly 30% of the total GDP of the Chinese economy. Investment rose to a record 58% of GDP. These are remarkable figures and one can only wonder how well this money was spent. So it is quite possible that the Chinese economy is poised for a short-term slowdown in the rate of growth. Accordingly we have reduced our position in Rio recently after RIO's very strong stock performance.

With regard to portfolio positioning, our leading sector overweights are now focused in Industrials, Energy and Consumer Discretionary (through media and gaming rather than any retail stocks). Healthcare is now a small underweight compared to being our largest overweight a year ago. Our Energy overweight has been boosted by exposures to coal via Centennial and Coal & Allied and both these shares have performed very well since purchase. The portfolio continues to add mid to later cycle sectors such as media, wealth management and transport. We have also increased our US-exposed stocks given the early stage of that country's recovery.

We continue to be underweight the REIT sector as the forecast returns from this sector continue to be less than the equity market generally and also less than the stocks currently held in the Northward portfolio. The REIT stocks are valued using a total return method, which uses dividend yield plus growth funded through retained earnings. Despite the significant fall in REIT prices, the forecast total return is not compelling. The listed REIT sector has raised a significant amount of equity recently which has reduced debt to asset levels from around 40% to 30%, but this is also dilutive to equity returns. We would regard 30% as a maximum gearing level over the medium term which means return on equity can no longer be enhanced through higher gearing as it was in the past. Also, dividend payout levels are now moving below 100% of cash earnings, as REIT managers realise they must fund maintenance capex and growth through earnings and not additional debt. We have a preference for the retail sector over office and industrial as retail has been the only sector to achieve real rental growth over a sustained period of time.

## Portfolio Activity

Position Change	Holding	Start %	End %	Activity
Increased	Westpac Bank	7.3%	9.4%	WBC was up-weighted after material underperformance of the peer group. WBC's underperformance was partly driven by the dilution of the SGB acquisition but also by what we see as a more temporary loss of faith in what remains a quality management team.
Increased	Qantas Airways	0.0%	1.0%	Leisure traffic has improved significantly for QAN and we expect stronger corporate travel plus significantly stronger yields for international.
Increased	Computershare Ltd	0.0%	1.4%	Computershare was purchased to gain exposure to the increasing M&A sector over the next few years. CPU is also a positive beneficiary of higher interest rates.
Decreased	Lihir Gold Limited	0.8%	0.0%	We sold the small remaining balance in LGL and remain exposed to gold via our preferred stock, Newcrest. Newcrest has a diversified balance of higher growth lower cost assets, generating higher margins over the longer term.
Decreased	Comm Bank	9.2%	6.0%	Despite CBA offering a sustainably better ROE than NAB, we believe the price differential had more than taken this into account with CBA's PE premium over NAB exceeding 25%.
Decreased	Nufarm	1.6%	0.0%	* Period end holding excludes 0.4% in Acceptance stock. We sold down our position over the quarter. Industry conditions remain tough still and visibility on global glyphosate demand is cloudy. Initially we retained a small overweight position to participate in the Sumitomo stock tender at \$14, but remain wary of the very large second half profit turnaround forecast by NUF's erratic management.
Decreased	Origin Energy	2.3%	1.5%	We reduced our holding in Origin as we expect the potential returns from proposed LNG projects may be decreasing due to delays in contract signings and increases in capital expenditure. We do expect however that Origin remain well placed to monetise their gas reserves by making sales to other LNG participants.
Decreased	Telstra	4.0%	1.4%	We sold down before and after (more aggressively) the December half operating result, which depicted sharp deterioration in key operating measures, particularly rate of decline of fixed line revenues. Competition from carriers continues to be aggressive and the government and regulator views on implementing the NBN provide further risk to the stock's rating.

## Stock in Focus

### Crown Ltd \$8.18 XKO 4,868

Crown owns a diversified portfolio of gaming assets across venue types and geographic regions. The key assets are:

1. Australian wholly owned casinos – Crown Melbourne and Burswood in Perth are both excellent properties with strong regulated positions in their respective markets. While both these properties are mature, they should be able to generate solid, high single digit growth in operating cashflows.
2. Macau – exposure to Macau market through a 37% interest in Melco. Melco's key assets comprise the recently opened City of Dreams casino on the Cotai strip which is geared towards the mass market, and the more mature Altira casino catering for the VIP market.
3. Investment portfolio – Crown has a range of other investments, predominantly acquired offshore, which were largely acquired at peak cycle prices and have disappointed operationally. We ascribe nil value to this portfolio.

The domestic casinos are the key plank to the Crown investment case, representing around 87% of our valuation of \$10.16, with Crown Melbourne generating a little over twice the level of Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) as Burswood.

Both domestic casinos have long term licenses and quasi monopoly operations in their respective markets.

In recent periods the casinos have generated a very commendable 5% growth in EBITDA given that they reflect lacklustre economic conditions and the impact of substantial refurbishments in both properties.

Management have demonstrated an ability to manage the core gaming operations well over a sustained period and appear to have mitigated disruption from the capital works program. CWN remains confident of obtaining 15% return on investment (ROI). The Melbourne property has an excellent position and should only benefit from greater regulatory restrictions and uncertainty applying to gaming machines operations in Victorian pubs and clubs. Burswood is well positioned to capitalise on the strong, resource led economic conditions in WA.

Macau, while only currently representing 13% of our CWN valuation, has considerable upside potential. The overall Macau market has been showing growth rates of between 40% and 60% so far this year leading to analyst upgrades for the market. Melco's City of Dreams, which opened in June 09, has had a modest start, however, it is showing signs of significant improvement. We believe that the Macau market will grow substantially in coming years.

CWN's remaining investment portfolio is valued at nil, given that there is no further requirement to commit equity and operating conditions remain difficult. There is some small upside potential for value to return over the longer term, however, this is not a material element of our investment case. Importantly, we believe the Board and management of CWN have learnt from these ill-judged investments and are intent on focusing on driving value from the existing portfolio.

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