

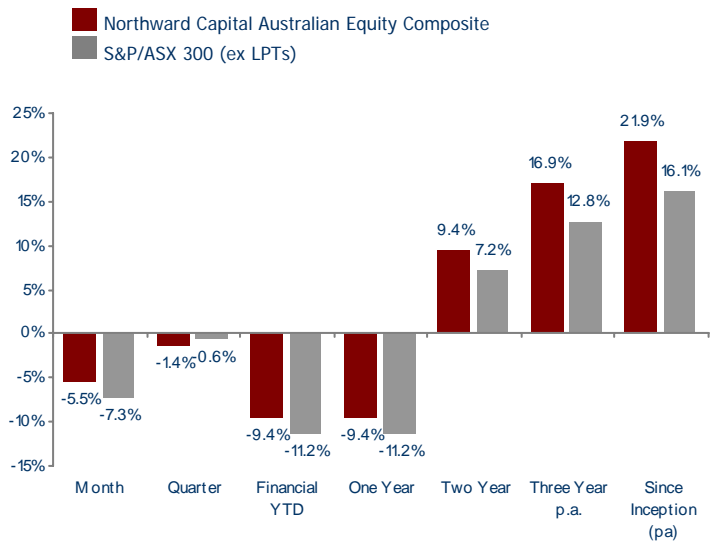
Fund Results

	Quarter
Northward Capital Australian Equity Composite	-1.36%
S&P/ASX 300 (ex LPTs)	-0.56%
Value Added	-0.80%

Stock Contributors	Overweight (+) Underweight (-)
Oil Search	+
ANZ	Not held
Incitec Pivot	+
Western Areas	+
Rio Tinto	+

Stock Detractors	Overweight (+) Underweight (-)
Equinox	+
Santos	Not held
Woodside Petroleum	-
Origin Energy	Not held
Fortescue Metal	Not held

Risk Information	
Standard Deviation	13.2%
Tracking Error	3.6%
Information Ratio	1.2



- (1) Total market value represented as at month end was \$1,628.44m
- (2) Inception return is calculated from 1 July 2004
- (3) Returns are calculated after transaction costs, before taxes, before fees.
- (4) Performance is for a composite of all current accounts.
- (5) Risk information is based on monthly returns over rolling 3 year periods.

Performance Review

- Over the June quarter the S&P/ASX 300 (ex LPTs) declined -0.56%. Against this benchmark the Northward Capital Australian Equity Composite returned -1.36% resulting in an underperformance of 80 basis points.
- Portfolio performance was down over the quarter, despite a significant rebound in June after a particularly difficult month in May. Major contributors to the fund included holdings in Oil Search, Incitec Pivot, Western Areas and Rio Tinto, as well as not holding ANZ. Three of the 4 major detractors - Santos, Woodside Petroleum and Origin Energy came from the Energy sector, which were all either not held, or in the case of Woodside, an underweight position. The fourth, and most significant detractor, was not holding Fortescue Metals Group which returned 83% for the quarter making its annual return 252%.
- With oil hitting over \$140 barrel and recent LNG contracts being priced at oil parity instead of the historical significant discounts, the energy sector was the standout performer. As such while Oil Search delivered strong performance, being underweight Woodside, Santos and Origin detracted for the same reasons.
- The other major energy theme for the quarter was corporate actions within the coal seam gas stocks. British Gas surprised the market with an offer for Origin Energy of \$14.70, a 47% premium to the market prices, only to raise this to \$15.50. Further, Petronas made a part purchase of some of Santos' assets, and Shell bought into Arrow Energy.
- Boart Longyear rallied strongly during the quarter after issuing a large profit upgrade in its outlook statement, defying the majority of the Industrials sector which underperformed the broader market. However, this strong performance is not surprising given their focus on the mineral industry, and presence in the environmental & infrastructure and energy industries. As drilling services remain under high demand companies such as Boart and Worley Parsons continue to look in an excellent position to capitalise on this.

- Among the standout performers in the resource sector was nickel sulphide play, Western Areas. Their mine, Flying Fox is cash flow positive, and Spotted Quoll produced some excellent drilling results further proving the quality of their resource. Given their tenements' potential, location and size we continue to believe Western Areas is a major global target for consolidation.
- Soft commodities, and agriculture continued to do well on the back of a global demand to increase crop yields. For example, Phosphate rock prices which were US\$145 per tonne in September are now US\$680 per tonne ex Morocco, and Potash prices are over US\$800 per tonne. On the back of this sustained demand environment Incitec Pivot continues to do well, with its >40 years of reserves of phosphate rock and low cost integrated production standing it in good stead. Further, Incitec completed its purchase of Dyno Nobel, enhancing its #2 global market position within nitrogen chemical manufacturing.
- With financials continuing to suffer the portfolio's relative underweighting to the sector has been a positive. In this regard, not holding ANZ, which has a greater exposure to deteriorating corporate conditions, was a significant benefit to the portfolio as the largest positive contributor. Within financials, Babcock and Brown suffered heavy losses and, appropriately or not, took their associated satellite companies with them. Not everything within the banks was negative during the quarter. However, it took Westpac's proposed merger with St George to effect this. This detracted from performance over the quarter, although most of the impact was in May and somewhat recovered in June.
- Rio Tinto's performance, while not spectacular in the context of other miners, continued its solid run. A notable positive of the sector was the 85% lift in contract iron ore prices.

Market Review

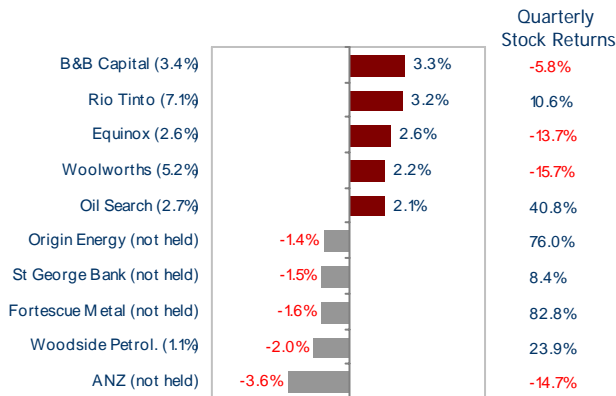
- During the June quarter there was no abatement in the exceptional levels of market volatility, delivering the first run of three consecutive negative quarters since 2000-2001. The quarter was marked by continued weak economic data out of Europe and the US in particular and concern over inflationary pressures. The market remained heavily focused on oil and energy prices. Oil continued its remarkable rise, appreciating 38% in the quarter to finish at US\$140 a barrel.
- These underlying themes created the very choppy market conditions that saw some stocks heavily sold off, and others continue their ascension unabated. This typifies the current '2 speed' environment talked about today and is reflected in the divergence of returns between the industrials and resources index of 29%.

- Resource companies won large price increases in contract settlements for coal and iron ore, up 200% and 85% respectively. While these bulk metals did well, base metals were mixed over the quarter, with copper (+4.8%) and aluminium (+4.8%) rising, while zinc (-18.7%) and nickel (-27.3%) both lost ground.
- The Australian dollar continued to gain ground on most currencies during the quarter, up 4.7% against the USD and Euro, and 4.1% against GBP
- The best performing sectors in 2Q08 were Energy and Materials and information technology as the only positive sectors, with Energy the standout. The worst-performing sectors were Industrials, Property and Consumer Discretionary.

Fund Composition

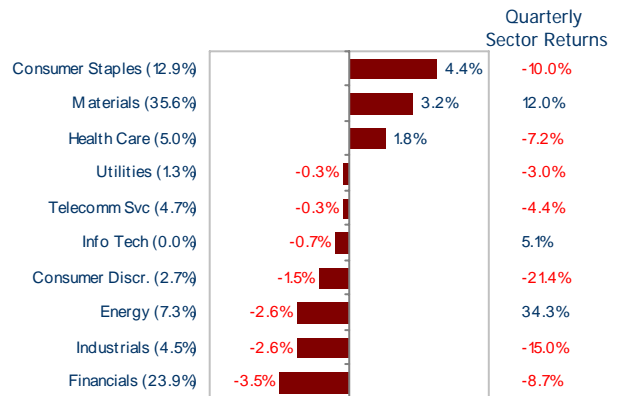
- Active Stock Positions

Underweights / Overweights versus benchmark



- Sector Diversification

Underweights / Overweights versus benchmark



Portfolio Strategy

• As noted elsewhere, while not exhaustive the dominant themes impacting the market and being assessed in framing our portfolio strategy are:

- The continuing strength of energy prices, notably Oil
 - Inflationary pressures in many economies, particularly associated with higher food and fuel prices
 - Weakening economic signals in US and UK, poor housing markets and weaker consumer confidence
 - Credit rationing and reduced liquidity together with financial system writedowns
 - The sustainability of economic growth in China and other developing countries
- We are of the view that consumer sentiment will continue to be weak as households struggle with inflationary pressures and soft housing markets (particularly in the US and UK). Sectors exposed to discretionary spending will face particular difficulties. Rising input cost pressures will adversely affect many businesses, particularly in manufacturing and transport, impacting margins. We believe that the market continues to underestimate the level of margin contraction in many industrial companies and further earnings downgrades for FY09 are inevitable.

• We are generally positive on the medium term outlook for commodity prices, particularly the bulks, due to ongoing demand growth from China and significant supply constraints. While commodity prices will continue to be volatile we are comfortable with valuation support for selected resources, particularly the large diversified plays RIO and BHP. We are concerned over the sustainability of current oil prices and related valuations of listed energy companies. We are currently exposed to companies leveraged to oil and resource activity (such as WorleyParsons, Caltex and Boart Longyear) rather than direct energy prices.

• During the quarter we added to positions in Nufarm, WorleyParsons, Woolworths, Western Areas, Crown, Incitec Pivot, BHP (partly as energy exposure) and Telstra and initiated positions in Newcrest and Woodside (while still underweight). We reduced positions in QBE, Boart Longyear, Macquarie Airports, and exited Babcock and Brown Power, Macquarie Communications and Telecom NZ.

• In terms of our portfolio positioning our main overweight is in Consumer Staples which we believe should be somewhat more resilient than more discretionary exposures, overweight healthcare and Chemicals (leverage to soft commodities). We remain moderately overweight the Metals & Mining sector and underweight Energy. We are underweight financials due to ongoing concerns over credit quality and un compelling valuations.

Portfolio Activity

Position Change	Holding	Start %	End %	Activity
Increased	BHP Billiton (BHP)	10.6%	14.9%	The position in BHP Billiton was increased due positive earnings revisions for the company and its relative value trading on 2009 P/E multiple of 8x, compared to the market at 14x. BHP has had significant price increases in many of its major commodities, reflecting strong demand fundamentals and continuing issues in the supply chain for almost all commodities. Further the oil and gas, thermal coal and uranium divisions of BHP increase the portfolio's exposure to energy.
Increased	Crown Limited (CWN)	0.4%	1.5%	We added to our recently initiated investment in Crown due to the undemanding valuation implied for the high quality, strong cashflow generating domestic casinos in Melbourne and Perth. Incorporating conservative valuations for the solidly performing Macau business and book value for investment assets the domestic casinos are trading at only 6x FY09 EBITDA, a substantial discount to the market and a number of international peers.
Decreased	Telecom NZ (TEL)	0.7%	0.0%	We completed our selling of Telecom NZ (TEL) to exit following ongoing disappointment in key operational drivers evident in the December and March results. Other concerning factors include uncertainty with the NZ regulatory environment, significant management change and stretched resourcing, weakening NZ economic environment and currency pressures.
Decreased	Babcock and Brown Power (BBP)	0.7%	0.0%	BBP's financial position has deteriorated significantly. Despite management's previous confidence, a large debt refinancing was only partially completed. Also, management revealed the near term requirement for additional funds for the construction of a power station. This unexpected funding requirement forced either raising equity or an asset sale program. Given the forced nature of asset sales, lack of management transparency, and high levels of gearing, an accurate valuation became very difficult and it was decided to sell the position to zero.

Stock in Focus

Babcock and Brown Capital (BCM)

BCM is an investment company that first listed in Feb 2005, raising \$1bn over 2 instalments (200m shares at \$5.00). BCM has a management agreement with Babcock and Brown Capital Management Limited, a part of the Babcock and Brown (BNB) group, to manage its operations. The original premise for BCM was to leverage BNB's asset gathering skills to acquire accretive assets for the BCM "cashbox". BCM was to hold a concentrated portfolio of assets with a "flexible investment time horizon". BCM has subsequently acquired controlling positions in 2 key operating businesses.

BCM holds a 57.1% interest in eircom, representing an investment of \$448m (valued at cost). Associates of BNB hold an additional 7.9% and existing and former employees will hold the remaining 35%. eircom is Ireland's incumbent telco and owns Ireland's copper and fibre backbone telecommunications network. It is the dominant provider of fixed line wholesale and retail telecommunication services in Ireland and has 71% of the fast growing retail DSL broadband market. eircom's mobile business has a growing 18.9% share of the mobile market.

Importantly, eircom continues to operate soundly with cashflow from fixed line businesses being steady, in line with expectations, and strong growth from the mobile business. Margins in the medium term will be assisted by headcount reductions through an employee approved voluntary redundancy program. The demographics of Ireland, reasonable regulatory framework, combined with delivery on operational metrics are supportive of the eircom valuation.

In July 2007, BCM acquired 100% of Golden Pages Group, the dominant directories business in Israel for \$248.1m, requiring an equity investment of \$150m. Following the refinance in Feb 2008, the equity investment is currently A\$107m.

The group includes Golden Pages, Israel's yellow pages business, plus other complementary print and online businesses, such as ZAP, Israel's premier price-comparison website, REST, Israel's premier restaurant directory business, Pro group, Israel's premier student portal, and 55% of Dun & Bradstreet Israel, the premier business info directory.

In early 2008, BCM had cash and liquid securities of approx \$460m. Together with the carrying value of the operating assets, BCM's NTA at 31 December was \$5.18. With the stock trade at a substantial discount to these levels, the independent directors asked shareholders to approve a \$310m buyback of up to 50% of the share base, while retaining \$150m cash as a working capital for the operating businesses. This was approved and currently 16% of BCM's share base has been bought back at a substantial discount to NTA, and Northward's valuation, thereby creating additional value to remaining shareholders.

The global credit crisis means balance sheet structure and refinancing issues are in key focus. There is significant non-recourse debt held against each operating business but, as noted above, BCM has substantial cash. The eircom debt of 3.8bn Euro has an average term of 8 years with no major repayments due until 2013 and includes substantial interest rate hedges. The high cash generation supports this debt and all covenants are being comfortably met.

Northward believes the BCM NTA of \$5.30 is conservative and a more realistic valuation is at least \$6.00, reflecting a multiple of 6.3x FY09 EBITDA for eircom and a 50% reduction in the carrying value of Golden Pages. We note that this view is supported by the recently released Independent Expert's report commissioned for the off market component of the \$310m buyback program. This valuation generates an expected total return of >50% at the current share price.

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