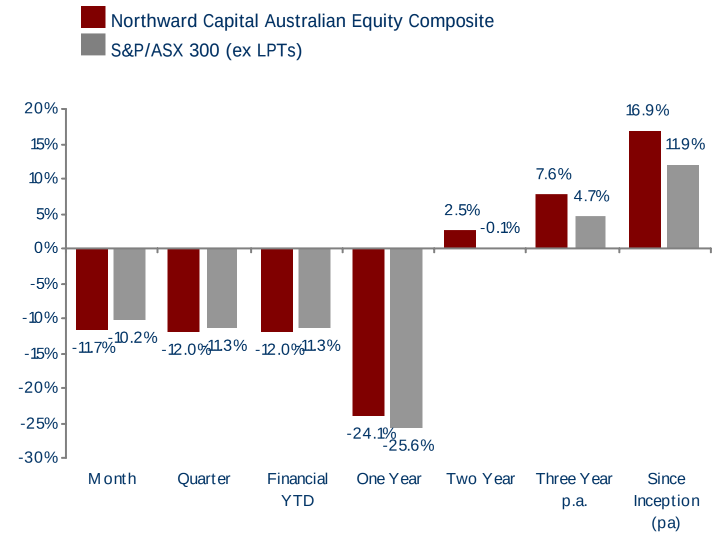
Northward Capital Australian Equity Composite
Quarterly Investment Report
30 September 2008

Fund Results

	Quarter
Northward Capital Australian Equity Composite	-11.95%
S&P/ASX 300 (ex LPTs)	-11.33%
Value Added	**-0.62%**

Stock Contributors	Overweight (+) Underweight (-)
Fortescue Metal	Not Held
Resmed	+
Woolworths	+
Coca Cola Amatil	+
Macquarie Group	-

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



(1) Market value of the investment as at month end was $1,490.74 Million
(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.

Risk Information	
Standard Deviation	15.0%
Tracking Error	3.7%
Information Ratio	0.8

Performance Review

• Over the September quarter the S&P/ASX 300 (ex LPTs) declined -11.3%. Against this benchmark the Northward Capital Australian Equities Fund returned -12.0% resulting in an underperformance of -62 basis points.

• Market volatility continued increasing over the quarter to historically high levels reflecting investor uncertainty and trading related activity. Underlying fundamentals often seem overridden in the short term, providing investment opportunities but also significant trading "noise".

• Positive contributors to fund performance over the quarter were Fortescue Metals which was not held and fell 39% over the quarter, ResMed, Woolworths and Coca-Cola Amatil, benefiting from the more defensive nature of these holdings and Macquarie Group which was an underweight position over the quarter. The major detractors were Rio Tinto, Equinox, Boart Longyear and Incitec Pivot, all impacted by falling commodity prices and the slowing global economy, and Babcock and Brown Capital.

• Our June quarter commentary focused on the stagflationary prospect of weakening economic growth combined with global inflationary pressures from rapidly rising oil and food prices. More recently, Central banks are far less concerned about inflation as the oil price has retreated significantly and the key commodity indices are well off their peaks. The primary focus is on restoring confidence in financial markets and staving off severe economic contraction. The weakening economies of the US and Europe have now been joined by softer growth numbers coming out of China. The true Chinese picture is somewhat muddied by the Olympics and potential posturing leading up to key commodity negotiations.

• The Australian market has been taking its lead from the US with concerns over the health of the US economy and financial system, and the ability of the US Federal Reserve to reassure and stabilise markets, dominating local investor sentiment.

• As noted, a major contributor to Northward's performance included ResMed, which returned 49% over the quarter on the back of announcing record financial results for the June 30th quarterly and year end reporting and encouraging growth in the US market. RMD is also a big beneficiary of the falling Australian dollar, which fell 18% over the qtr. Further, home testing of sleep apnea received a boost from both national and local US Medicare rulings and support from the International Diabetes Federation for testing type 2 diabetes patients.

• Woolworths also continued to perform well delivering 23.8% EPS growth in FY08 as they continue to capture market share gains, improve margins and benefit from their defensive nature. They also have announced extensive capital expenditure on updating stores and a new 'smart' credit card.

• Both BHP and Rio Tinto underperformed the broader market due to softer commodity prices and concerns that the worsening credit crunch can only negatively impact demand for raw materials. However, there is no doubt sentiment has deteriorated in China and this has resulted in sharp falls in bulk freight rates, steel prices and spot market iron ore prices. However, second tier resource stocks have been even more harshly dealt with due to concerns over project funding, with limited availability of equity and credit meaning that a number of projects are now more hopeful than realistic.

• We remain underweight bank stocks at a sector level. In choosing between banks, asset quality remains the crucial consideration. This results in our being overweight Westpac and CBA and underweight NAB and ANZ (not held). While Australian banks are definitely weathering the credit crisis far better than global peers they remain leveraged to economic conditions and as such remain at risk of lower earnings from reduced credit growth, higher funding costs and increasing bad debts. The healthier condition of our major banks appears to be already captured in the premium they trade at to their global peers.

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Market Review

• The September quarter continued the difficult market conditions of the preceding 3 quarters. At the heart of investor uncertainty was the unprecedented upheavals occurring in the US financial system with a number of major institutions going under or being rescued under nominal equity rescue packages. This culminated in the US Treasury's 'TARP' US$700bn rescue package, which was finally ratified after the US Congress saw the potential ramifications of inaction.

• The financial markets, credit and equity, are experiencing an upheaval not seen for generations. The failure of banks and other financial institutions around the globe has heightened counterparty concerns and fundamentally destroyed confidence. This crisis of confidence is rapidly moving from the professional markets to the "real world" of the consumer.

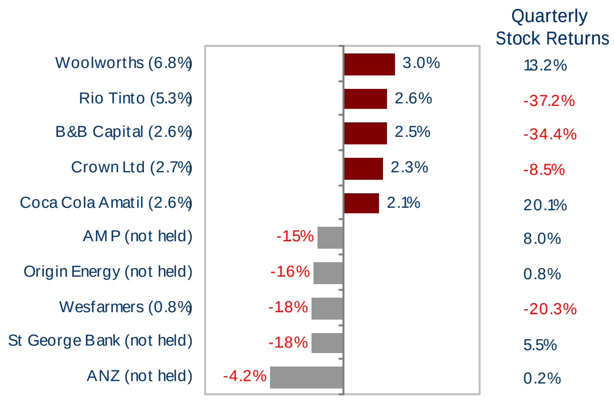
• The threat of a US recession is extremely high as we see deleveraging on an unprecedented scale by large institutions and retail investors alike. Consumer confidence is understandably very low in the face of falling home prices, falling share prices as well as sharply rising unemployment.

• Similar issues exist in many European countries such as the UK. While Australia's strong resource position has proven a protection, rapidly declining commodity prices, high consumer indebtedness and arguably high home prices pose some risk to domestic economic growth.

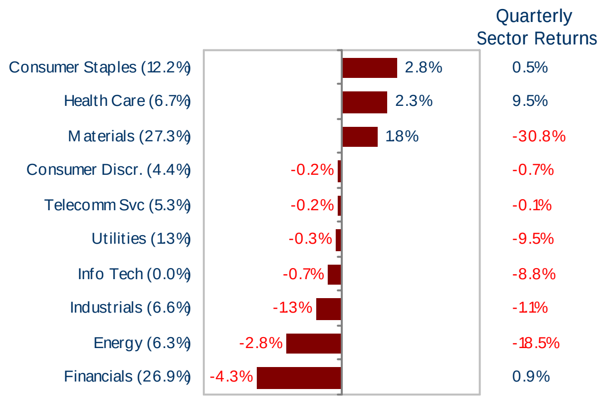
• The best performing sectors in 3Q08 were Healthcare, Financials and Consumer Staples, while the Materials, Utilities and Energy sectors lagged.

Fund Composition

- Active Stock Positions
Underweights / Overweights versus benchmark



- Sector Diversification
Underweights / Overweights versus benchmark



Portfolio Strategy

• Clearly, a dominant issue affecting the market is the severe dislocation in global credit markets and the resulting lack of liquidity that is available to corporate and households alike. The significant de-leveraging that must inevitably take place is likely to be a protracted and painful process, and significantly dampen global growth.

• While the catalyst of the current credit crisis can be traced to US sub prime debt, it is increasingly clear that financial system weakness is not confined to the US, with the European banking system showing significant signs of distress.

• We remain focused on investing in companies with high quality balance sheets, robust cash flows, quality management and strong market positions. While the recent 100bps rate cuts by the RBA is a positive, we think the outlook remains very tough for domestic media, financials, discretionary retailers and building stocks. In addition, we hold limited Small Cap names at this time as they generally do not have the financial firepower of the big caps or the diversity of revenues to weather the sharp contraction in consumer demand or credit availability.

• We expect consumer sentiment will weaken further in Australia as households struggle with softening housing markets and an uptick in job layoffs. Sectors exposed to discretionary spending will face particular difficulties. We continue to believe the market is underestimating the level of margin contraction in many industrial companies and further earnings downgrades for FY09 are inevitable.

• During the quarter we added to positions in Westpac, Woodside, Crown, Brambles, CSL and Newcrest, and initiated a position in Transurban and Energy Resources of Australia. We reduced positions in Wesfarmers, nab, BHP, CBA and WorleyParsons, and exited Oil Search.

• In terms of our portfolio positioning our main overweights are in Consumer Staples at +2.8%, which we believe should be somewhat more resilient than more discretionary exposures, Chemicals +2.7% and Healthcare at +2.3%. We remain moderately overweight the Metals & Mining sector at +1.5% and have increased our underweight to Energy at -2.8%. We are underweight financials due to ongoing concerns over credit quality and ongoing earnings downgrades.

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Portfolio Activity

Position Change	Holding	Start %	End %	Activity
Increased Holdings	Energy Res Aust. (ERA)	0.0%	1.0%	ERA is the world's third largest uranium producer with global exports solely for use in nuclear electric power generation. The current proposed Ranger mine life is until 2016, with further resource upgrades due by year end. ERA also owns the Jabiluka deposit. This project is currently on care and maintenance while ERA negotiates with the traditional land owners. At ERA's current share price we estimate investors get a free option over Jabiluka's development.
Increased Holdings	Transurban Gp (TCL)	0.0%	1.4%	TCL develops and manages electronic toll roads with ownership of the Melbourne CityLink and the Hills M2 in Sydney among others. Revenues are reasonably predictable with traffic growth in line with GDP and toll revenue slightly above this in the medium term. The roads and corporate entity are modestly geared vs peers with a transparent corporate structure and vanilla debt instruments.
Increased Holdings	Woodside Petrol. (WPL)	1.1%	2.7%	WPL is Australia's largest independent oil and gas producer with particular focus on the NW Shelf in WA. WPL's growth profile is dependent on its LNG growth and we are seeing strength in the market with evidence of new contracts in the market place being signed at "oil price parity".
Decreased Holdings	Oil Search (OSH)	2.7%	0.0%	We exited OSH over the qtr after having held the stock in our fund for over 4 years. While we view the PNG project value as attractive longer term, in the near term OSH is faced with lower realised oil price revenue as the near term outlook is now much softer for oil producers.
Decreased Holdings	BHP Billiton (BHP)	14.9%	10.6%	We reduced our holding in BHP and upweighted our holdings in NCM and RIO. NCM is Australia's largest gold miner operating 6 mines in Australia and Indonesia with a development asset in Papua New Guinea. NCM sits in the bottom quartile of Global Gold companies for cost and has long life operations, with substantial potential to increase reserve and resources.
Decreased Holdings	Wesfarmers (WES)	4.0%	0.8%	We reduced our holding in WES due to concern over the deteriorating outlook for consumer spending and the slow progress to date on the Coles integration. Additionally WES's balance sheet is not as strong as in the past after having paid a full price for Coles at the time of high private equity interest in 2007.

Stock in Focus

• Rio Tinto (Rio) is one of the world's largest mining companies, having a major global presence in Iron Ore, Copper, Metallurgical and Thermal Coal, Aluminium, Alumina, Bauxite, Industrial Minerals, Diamonds and Uranium.

• The company has assets globally, with the majority of production being located in Australia and the Americas, giving Rio both product and geographical diversification. Rio's earnings and cash flow have been significantly boosted over the last few years by the increasing demand from China for raw materials, and as a result the company has a substantial capital programme to expand its operations, particularly in Iron Ore. In an environment where access to capital is becoming increasingly both constrained and expensive, this leaves Rio in a strong position relative to smaller less diversified competitors.

• Rio is an exceptionally well managed company with most of their operations being in the lowest quartile of the cost curve. The operations are well capitalised and are world class.

• Mid last year, Rio made a major acquisition via the takeover of Alcan. This gave Rio a more significant presence in the Aluminium and related industries as well as an importantly strategic exposure to major clean, inexpensive and long term energy sources in low risk countries.

• Rio reported a profit of $US7.3 billion in 2007, and in the first half of 2008 reported $US5.4 billion. The forecast earnings for 2008 assuming current commodity prices is $US12.5 billion, earnings growth of 71%. Once again using current commodity prices, Rio is forecast to earn $US15.6b in 2009, earnings growth of 25%.

• Rio is trading at a low P/E multiple, of around 6x 2009 forecast earnings. This multiple reflects a market belief that earnings are "top of the cycle" and need to be discounted accordingly.

• Rio's share price declined greater than 30% in September as the market became increasingly nervous about global growth due to the crisis in financial markets. Added to this there are strong concerns that the Chinese economy's rate of growth is slowing and that commodity prices will go lower than they are presently. It should be noted though that the Chinese economy has been affected by widespread closure of industry in Beijing and its surrounding provinces during the Olympics. The ultimate significance of these actions is unclear but it is expected that activity will pick up somewhat in October and beyond.

• Additionally, the closely watched Iron Ore spot market has, as with other commodities, declined in price over the past few months. Larger than usual port stockpiles in China and steel production restrictions during the Olympics have contributed to this. However, a degree of strategic positioning by Chinese steelmakers leading into next year's iron ore price negotiations looks to have also put pressure on the market.

• Rio is also the subject of a takeover offer from BHP Billiton. The offer is 3.4 BHP shares for every 1 Rio share. Rio management has argued that the offer undervalues the company and has rejected the offer. The takeover is currently under regulatory review, with the key approval seen to be the European Commission (EC). The EC is reviewing the takeover offer and will report by January 15, 2009. Rio is currently trading at approximately 2.9 BHP Billiton shares for every Rio share. The discount represents the market's caution on the EC's approval in addition to the time until it makes its decision (3 months is a very long time in the current market).

• In conclusion Rio is a well managed company with high quality assets. Our current valuation of Rio is $130, representing a premium of 50% to market price as at the end of September.