

### Fund results

	Quarter
Northward Capital Aust. Equities Fund <sup>(1)</sup>	-14.09%
S&P/ASX 300 (ex. LPT's)	-14.21%
<b>Value Added</b>	<b>+0.12%</b>

#### Contributors

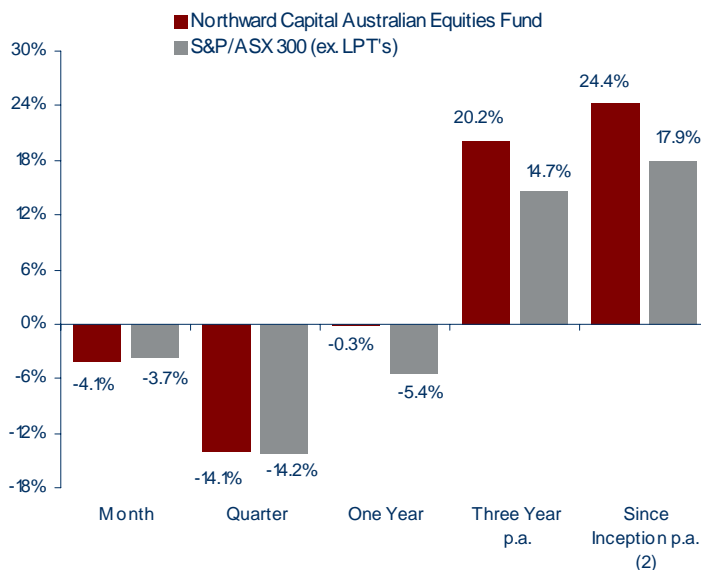
- Financials
- Materials
- Consumer Discretionary

#### Detractors

- Energy
- Telecommunication Services
- Utilities

#### Risk Information <sup>(4)</sup>

Standard Deviation (%)	13.0
Tracking Error (%)	3.1
Information Ratio	1.7



- (1) Performance is for a representative account
- (2) Inception return is calculated from 31 May 2004
- (3) Returns are calculated after transaction costs, before taxes, before fees.
- (4) Representative account based on monthly returns over rolling 3 years
- (5) Total FUM for Northward Capital as at month end was AS\$1.4bn

### Portfolio Review

• Over the March quarter the S&P/ASX 300 (ex LPTs) declined 14.2%. Against this benchmark the Northward Capital Australian Equities Fund returned -14.1% resulting in an outperformance of 12 basis points.

• Portfolio performance was essentially flat over the quarter, which is not wholly unsurprising after the very strong December quarter when the portfolio outperformed by 343bps. Major contributors to the fund included Incitec Pivot, Babcock & Brown Capital, Rio Tinto, Oil Search and Cash. International fertiliser prices rose from \$575/tonne to over \$1,150/tonne over the quarter after China withdrew from the export market after imposing 30% export duties. It was a measure of the sell off that 'Cash' was the second largest contributor to performance.

• Babcock & Brown Capital rallied strongly after the company announced solid results at Eircom in Ireland as well as announcing a buy-back of up to 50% of its issued capital under an active capital management plan designed to reduce the discount to the underlying value of the company versus the share price.

• Rio Tinto went from strength to strength as the prospects for iron ore price settlements are likely to exceed +70% and the aluminium price rallied ahead of analysts' forecasts.

• The copper price also traded as high as \$3.90/lb defying predictions it would sell off due to the recession in America crimping demand. Oil Search benefited from crude prices going over \$100 as did Woodside Petroleum, which the portfolio does not own.

• Telstra did well as a relative defensive (underweight position), evidenced by further positive operational momentum, particularly in the key mobile and broadband segments. The transformation program appears on track with surprisingly little slippage on targets (notably IT running to plan). Improving free cash flow trends and a thawing in the relationship with the new Government are also positive signs.

Stock	Overweight (+) Underweight (-)
<b>Top Contributors</b>	
Incitec Pivot	+
Babcock & Brown Capital	+
Rio Tinto	+
Oil Search	+
Babcock & Brown Ltd	Not held
<b>Major Detractors</b>	
Woodside Petroleum	Not held
Commonwealth Bank	+
Babcock & Brown Power	+
Telstra	-
Caltex Australia	+

## Market Review

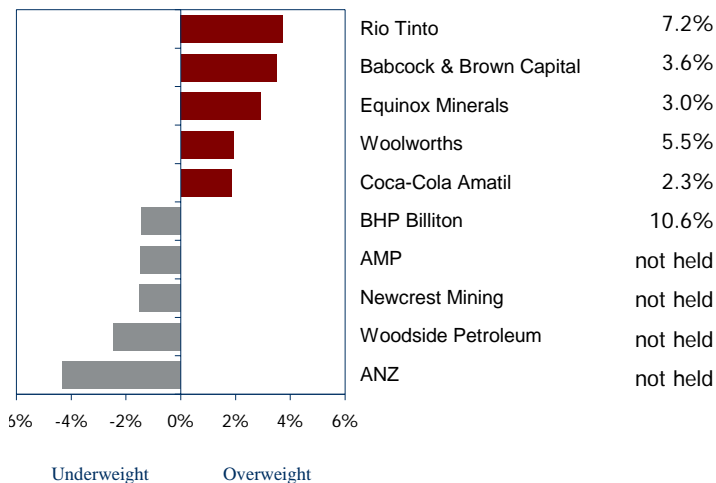
• The March quarter was marked by tremendous volatility as the market increasingly came to terms with the extent of the slowdown in the US, rising inflation risks and a general drying up in liquidity as investors' risk appetites diminished markedly. Gold hit \$1,000 for the first time ever, along with oil over \$100 a barrel and platinum over \$2,000. Other commodities such as corn, soybeans, wheat, ammonia and international fertiliser prices all hit multi decade highs as the recurring themes of rising Chinese and India per capita income and the US's expanding ethanol program continued.

• The US market performed poorly due to continuing difficult credit market conditions and huge write-downs in the financials sector. Here in Australia, the highest mortgage rates in 15 years saw interest rate sensitive and consumer stocks sharply de-rated.

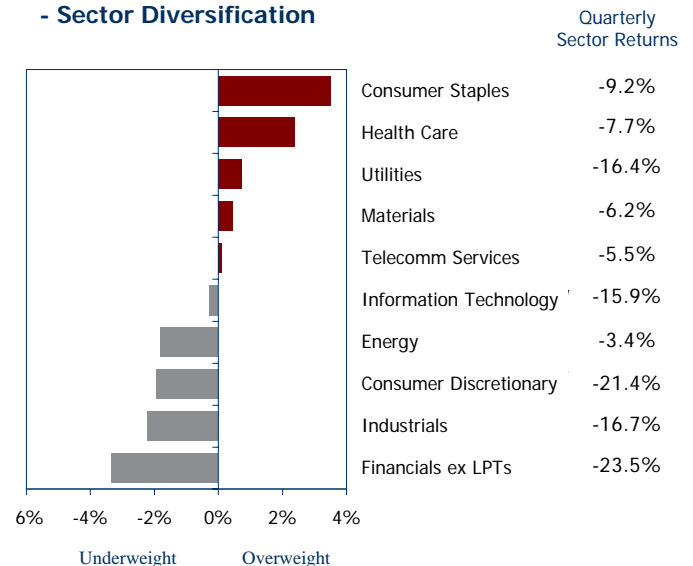
• The best performing sectors in 1Q08 were Energy, Telecommunication Services and Healthcare, while the two worst-performing sectors were Financials and Consumer Discretionary.

## Fund Composition

### - Active Stock Positions



### - Sector Diversification



## Portfolio Strategy

• Managing equities over the March quarter was a case of 'not using all your bullets up at once' as seemingly attractive prices in a number of our stocks in Northward's portfolio became cheaper again only days later. Consequently our approach was to selectively buy some of the more sold off names funded by some of our more resilient stocks.

• We added to positions in News Corp, Telstra, Worley Parsons, Caltex, Wesfarmers, Boart Longyear, Suncorp Metway and Metcash. We also funded new positions in Western Areas, Minara Resources, Nufarm, Crown and Primary Healthcare over the quarter and sold down positions in Platinum Australia, Incitec Pivot, National Australia Bank, Macquarie Airports, Telecom NZ and Commonwealth Bank. We also exited holdings in ASX, Great Southern and ANZ.

• In terms of our portfolio positioning we remain moderately overweight the Metals & Mining sector, underweight Energy and underweight the Banking sector ~6%. With the addition of Primary Healthcare we are now overweight Health care by ~2%. Our main overweight is in Consumer Staples +3.5%.

• It was interesting to note the contrarian signal in the Russel Q1 survey that a record 60% of Australian Fund managers have a preference for cash, up from 43% the preceding quarter. This suggests that market opportunities are on a firmer footing with more widespread pessimistic expectations. We reduced our cash weightings over the last month and now see a number of quality companies trading at attractive prices.

## Portfolio Activity

Increased Holdings	Start %	End %	
Westpac	1.4%	3.8%	Given Westpac's domestic and consumer focus, and the under-exposure to currently identified high risk loans, the decision was made to reduce the underweight position.
Western Areas	-	0.5%	Positions were initiated in WSA and MRE due to our view that the nickel price is set to rebound after Chinese de-stocking winds down and the fact that huge coking coal price increases will materially reduce the economics of producing cheap ferro nickel by competitors. We continue to see WSA as a standout due to its high grades nickel sulphide production, strong growth profile and exploration upside. WSA is on the cusp of delivering production and cash flows from Flying Fox. Further recent exploration success supports the company's long term growth aspirations and we see a number of similarities between WSA and Jubilee Mines.
Minara Resources	-	0.6%	We believe international agricultural dynamics are likely to remain strong for quite some years as we are witnessing the first real demand led period in commodity prices globally in more than 20 years. The Chinese are eating 3x the quantity of meat per capita that they were only 7 years ago, while the US is firmly committed to securing home energy supply via an expanding ethanol production framework. As investors we are witnessing record crop prices, and record crop plantings, which is positive for Nufarm's volumes and margins.
Nufarm	-	1.5%	
Decreased Holding	Start %	End %	
CBA	9.5%	5.6%	Despite CBA's domestic focus and a loan book weighted towards housing lending versus peers, CBA has reported a disproportionately large exposure to corporate loans that the industry has recently identified as high risk. This together with a greater exposure than peers to wealth management and margin lending implies downside to our earnings estimates.
Great Southern	0.8%	-	We exited GTP as the restructuring of the Timber MIS product will see eps decline by 70% and interest cover fall to 2x in FY08. The company needs to demonstrate value recognition longer term by attractive sales of its property assets.
Babcock & Brown Wind Partner	1.2%	-	We exited our position in Babcock and Brown Wind Partners over the quarter due to our concern over the group's debt levels and continuing need to issue fresh equity to pay for more acquisitions.

## Stock in Focus *Primary Healthcare (PRY) (XJO 5,404) \$5.95*

Medical services in Australia provide a defensive income stream, organic growth, and good cash conversion. With no exposure to currency fluctuations and unrelated to the economic cycle, Primary Healthcare (PRY) provides relative operational earnings certainty and stable growth. Due to the hefty capital raising required to fund the Symbion (SYB) acquisition, the opportunity to build a position in PRY arose at reasonable value.

Primary Healthcare (PRY) operates 40 medical centres, concentrated in NSW, which house the business of approx 540 GP's. The Primary business model is structured around the Medicare system, where payment is made by the government and the patient has no out of pocket expenses. This basic pricing regime and the extended hours of the medical centres providing convenience and availability of doctors is an attractive proposition to the patient, whilst the elimination of the complexity of running a small business is the benefit to the GP. Their reach has gradually spread into VIC and QLD. A pathology business was established to complement and draw from the work initiated by the medical centres.

The acquisition of SYB will effectively double PRY's size. Synergy benefits are expected to be approximately \$100m due to considerable overlap between the pathology labs and medical centres, combined with elimination of duplicate overheads.

The intention is to on sell the Consumer and Distribution businesses, with the tender process progressing, in order to lower the debt burden.

Post synergy realisation (2 years) the stock is trading at 11x prospective earnings per share, or a 15% discount to the industrial market (Industrials ex-banks). Historically PRY has traded at average premium of 40%-50%, due to the calibre of the management team, the security of earnings, the growth profile and potential of the medical centre model rollout. The management team remains, and have proven to be very astute negotiators and investors through the acquisition process. Organic growth will still be driven by the demand for health services (current growth in government outlays to GPs @ 6%) and the recent doubling of centres and accelerated doctor recruitment, which is now augmented by synergy capture and a national platform. Medical centre rollout will now be even more profitable as the radiology and pathology infrastructure are already in place. Once the debt burden has been moderated we would assume such a model and outlook would again be priced at a premium.

We value PRY on a 12mth forward basis at \$7.25. This results in a Total Expected 12mth Return of 26% including a 24c dividend.

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