

### Fund results

	Quarter
Northward Capital Aust. Equities Fund <sup>(1)</sup>	1.81%
S&P/ASX 300 (ex. LPT's)	-1.62%
<b>Value Added</b>	<b>+3.43%</b>

#### Contributors

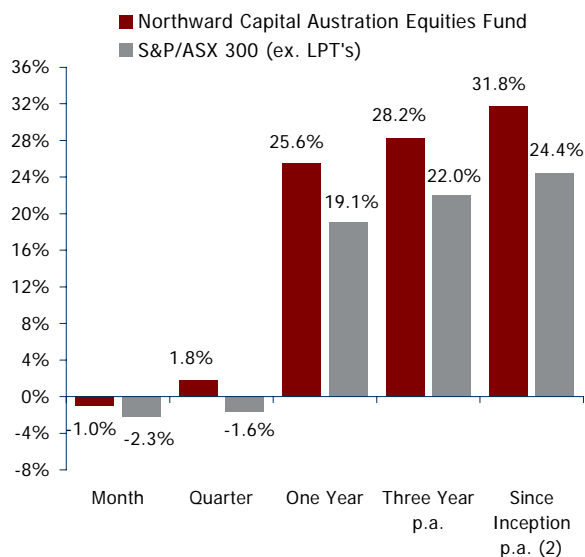
- Materials (Metals and Mining, Chemicals)
- Financials (Commercial Banks, Capital Markets)
- Consumer Staples (Food & Staple Retailing)

#### Detractors

- Consumer Discretionary (Media)
- Telecommunication Services (Diversified Telecoms)

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

Standard Deviation (%)	10.2
Tracking Error (%)	3.2
Information Ratio	1.8



- (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) Based on monthly returns over rolling 3 years  
 (5) Total FUM for Northward Capital as at 31 December 2007 was A\$1.4bn

### Portfolio Review

• Over the December quarter the S&P/ASX 300 (ex LPT's) declined -1.62%. Against this benchmark the Northward Capital Australia Equities representative portfolio returned 1.81% resulting in an outperformance of 343 basis points.

• Portfolio performance was particularly pleasing over the December quarter due to strong performances from RIO, EQN, IPL, PLA and TEL. Rio Tinto benefited from the news of BHP's proposed 3:1 scrip offer along with expectations of >50% settlements for the upcoming iron ore price negotiations, while EQN lifted on the news that Canadian copper producer First Quantum has accumulated a 17% stake. First Quantum owns copper deposits adjacent to EQN's Zambia mine. We view the risk of a takeover offer being launched for EQN as high. Meanwhile investors bid up IPL's stock price as the global price of DAP fertiliser increased from \$440/tonne to nearly \$600/tonne. Telecom NZ recovered from an oversold position in the Sept qtr.

• Detractors included the PBL Media spin off Consolidated Media, which owns stakes in a suite of premium media assets including Foxtel, Fox Sports, Seek as well PBL Media etc. Fortescue Metals Group rallied exceptionally over the quarter due to expectations of >50% settlements for the upcoming iron ore price negotiations, which benefit FMG if they are able to start producing in May 2008. Zinifex sold off on weakening zinc prices and lack of clarity about ZFX's strategic direction under new CEO Andrew Michelmore.

Stock	Overweight (+) Underweight (-)
<b>Top Contributors</b>	
Rio Tinto	+
Equinox Minerals	+
Incitec Pivot	+
Platinum Australia	+
Woolworths	+
<b>Major Detractors</b>	
Consolidated Media Holdings	Not held
Fortescue Metal	Not held
Zinifex	+
Challenger Financial Services	+
Newcrest Mining	Not held

## Market Review

• The December quarter was marked by the ASX200 falling 3.5%, the first quarter of negative performance since Q2 2006. Earlier, the market hit an all time closing high of 6,828 before retreating sharply as the RBA raised rates by 25 bps and signalled likely increases in the New Year. Further, fears of the impact of the subprime market fallout were realised when Centro Property Group announced serious problems in refinancing debt obligations, sending interest rate sensitive sectors and stocks lower.

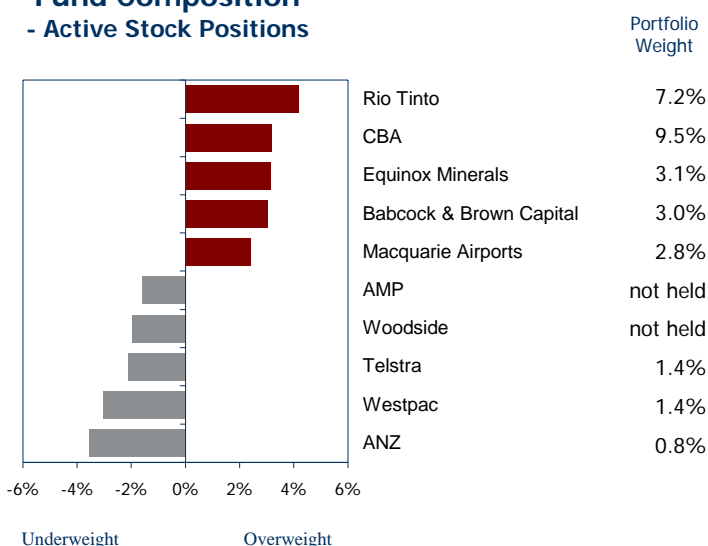
• The December quarter was marked by more ongoing volatility and the large retracement in the Listed Property Trust sector, which fell over 14%. Thematically, the quarter was characterised by widespread earnings downgrades relating to the strong \$A against the \$US.

Tighter credit market conditions reduced M&A activity compared with previous quarters, but the Resources sector was active with more bids made for mid-tier miners, while Coles Group was swallowed by Wesfarmers. Earnings upgrades were few, but AGM commentaries were largely positive and reiterated earlier guidance.

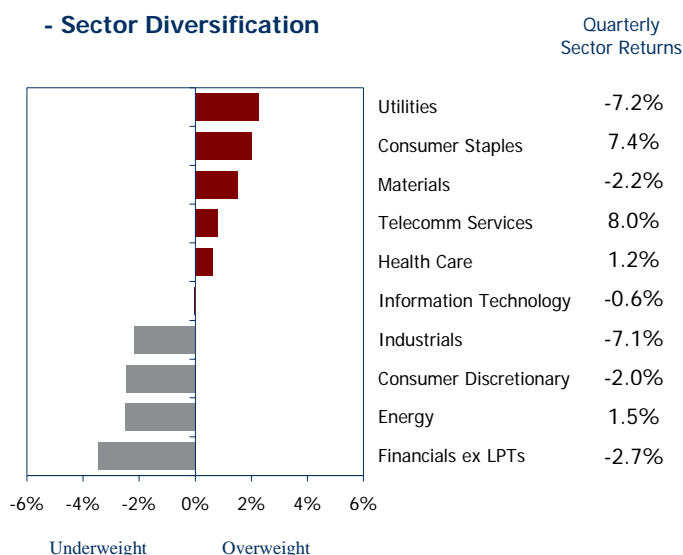
• The big news of the quarter was undoubtedly news of BHP's approach to Rio Tinto on the basis of a 3:1 scrip merger, which valued Rio substantially higher than its previous \$110 share price (circa \$132). As one of our top 5 active overweight positions we are firm believers in the value of Rio's long term earnings profile as well as the large pipeline of growth projects available.

## Fund Composition

### - Active Stock Positions



### - Sector Diversification



## Portfolio Strategy

• Managing equities over the December quarter was a challenging task with high volatility and continuing large rallies and sell-offs in the US equity market rubbing off on the ASX. Our approach was to focus on very stock specific stories across a wide range of sectors. We invested in Wesfarmers for the first time in 3 years on the basis that the new management team has a good chance of turning around years of underperformance at Coles, plus coal price settlements are looking extremely promising for 2008.

• We also realised our investment in Challenger Financial Group and reduced our Macquarie Bank position due to our belief that issues in global credit markets and the sub-prime market still have a fair way to go in playing out.

• We increased our stake again in Incitec Pivot as we consider DAP global prices will remain firm at levels above \$500 tonne and that the global drivers for food, feed, fibre and fuel will underpin rising global fertiliser demand for some years to come.

• We also reduced our Metals and Mining overweight position late in December when we sold out of Zinifex – a position we have held for over 3 years. Zinc prices have come off nearly 30% in the past 12 months on rising inventories and it appears that ZFX is not going to return the Nystar smelter cash proceeds, but rather use the money to expand via acquisition into other nickel and copper companies. Other portfolio changes were upweights in Telecom NZ, QBE, NAB and BCM.

## Portfolio Activity

Increased Holdings	Start %	End %	
Wesfarmers	-	1.7%	WES was purchased due to the positive earnings revisions for the Coal and Bunnings divisions, and the value creation opportunity that exists if the Coles turnaround is executed soundly.
QBE Insurance	1.5%	2.9%	QBE – we increased our weighting due to QBE's undemanding valuation and attraction of expected earnings delivery following benign catastrophe season and acquisition led premium growth.
Telecom Corp of NZ	1.6%	2.4%	TEL's solid cashflow viewed as good value at around 10x forward P/E with negative issues already well priced in and upside potential from improving relationship with regulators and government.
Rio Tinto	6.4%	7.2%	RIO has successfully argued its case for growth and value by outlining the large growth pipeline of projects it possesses outside of the next 2 years, especially in its iron ore division. It has also outlined a strong case as to why it expects a long period of high commodity prices.
Decreased Holding	Start %	End %	
Challenger Financial Services	2.4%	-	CGF - We significantly de-weighted diversified financial positions on belief that credit concerns and US economic outlook had further to run, particularly impacting on CGF's mortgage finance business.
Zinifex	1.8%	-	We view ZFX as being cum material earnings downgrades due to current zinc prices forecast by analysts being >20% above spot prices. We also view ZFX's moves to diversify away from zinc as being potentially value destructive.
Macquarie Group	2.8%	1.4%	MQG – possesses a good long term thematic around securitisation of infrastructure and similar asset classes, however we expect near term transaction volumes to be impacted by credit market issues and worsening investor sentiment.
Worley Parsons	1.0%	0.8%	We reduced our holding in WOR after a very sizeable run in WOR's stock price. We view the company's prospects as being excellent over the long term given their global pipeline of work in hand. However, we feel much of this is now in the current price.

## Stock in Focus *Macquarie Airports (XJO 6348) \$4.05*

Macquarie Airports (MAP) represents an exposure to a high quality global airports portfolio. The company is currently enjoying strong passenger growth across its airports due to strong consumer and business demand globally. Boeing are forecasting that global PAX growth will average 7-8% over the next 10 years – nearly 2x the growth experienced over the past 10 years. More recently the Infrastructure and Utilities sector has been heavily sold off due to credit market volatility, spill over from the Centro debacle and the property trust sector generally and the perceived higher returns from sectors such as Metals and Mining. However, in its sector MAP continues to do an excellent job of managing its portfolio and improving the value of its assets.

The underlying value of MAP's airports was made abundantly clear in 2007 when MAP sold its stakes in Rome and Birmingham airports respectively for over 60% more than MAP's internal valuations. MAP's Asset Backing as at 30 June 2007 increased from \$3.93 to \$4.92. We expect a healthy rise again as at 31 December 2007 due to higher stakes in Sydney and Brussels and continuing buoyant industry conditions.

Airports are extremely long duration assets and very hard to acquire due to political and sovereign concerns. The 3 key airports MAP owns – Sydney, Copenhagen and Brussels are all majority controlled by MAP. This means MAP's share price should reflect a 'control premium'. More importantly, it also means MAP has the ability to substantially work the business levers at each airport such as - improving the retail offer, expanding the car park offer, developing any surplus property holdings, changing and up skilling management where appropriate, and regearing the balance sheet given the strong cashflow nature of its airports. MAP's other two investments – Bristol Airport and Japan Air Terminals are small in value. Rome and Birmingham were long term underperforming airports with solid PAX growth and value potential. However, their Operating Margins were well below MAP's majority owned airports due to MAP not being able to effect management changes due to being a minority shareholder. The sale of Rome and Birmingham airports gave MAP capital management options to the tune of \$1.7bn. Additionally almost 100% of MAP's existing debt is hedged until 2011.

We value MAP on a 12mth forward basis at \$4.95 based on a discounted cashflow/yield methodology allied with a yield of 6.4%. This results in a Total Expected 12mth Return of 28%.

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