

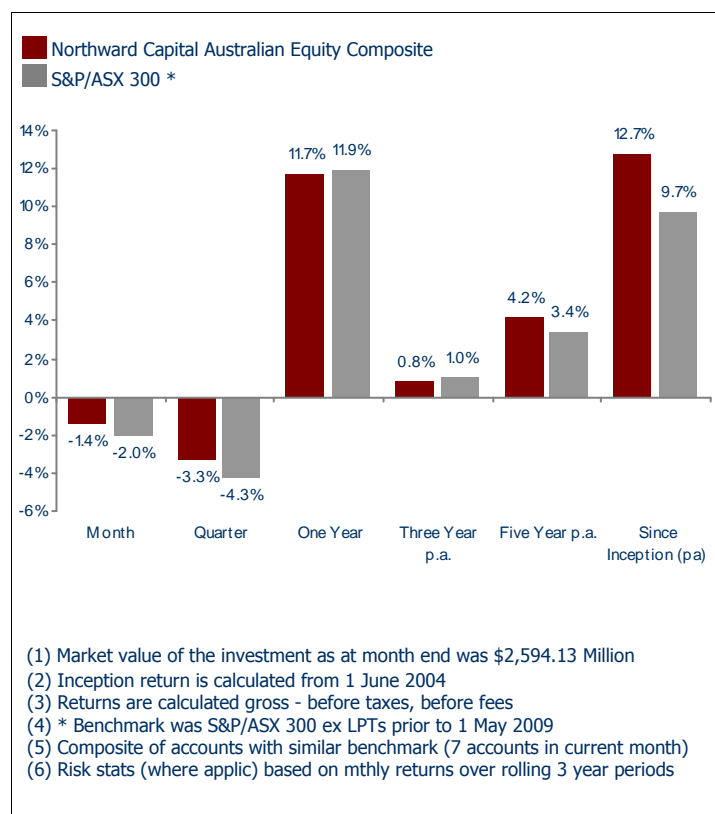
### Fund Results

Portfolio Results	Quarter
Northward Capital Australian Equity Composite	-3.31%
S&P/ASX 300 *	-4.26%
<b>Value Added</b>	<b>0.95%</b>

Stock Contributors	Overweight (+) Underweight (-)
Equinox	+
Macquarie Airports	+
Crown Ltd	+
BlueScope Steel	Not held
Transurban Group	+

Stock Detractors	Overweight (+) Underweight (-)
Energy Resources Aus	+
Ivanhoe Australia Ltd	+
NAB	-
Gloucester Coal Ltd	+
Telstra	Not held

Risk Information	
Standard Deviation	16.8%
Tracking Error	3.2%
Information Ratio	-0.1



### Market Review

Stock markets in the second quarter were softer on concerns over a faltering US economy and the European sovereign debt crisis. The ASX200 was down slightly due to a weakening domestic economy, concerns over policy tightening in China and a strong AUD. The Shanghai Composite index lost 5.7% over the quarter and within the Aussie market the mining-heavy Materials sector underperformed (-5.5%). An even sharper decline in the Energy index (-11.1%) made this a bad quarter for Resources, but the Banks sector (-4.4%) fared little better amid concerns about softening domestic economic activity. The S&P 500 was flat for the quarter; after a bright start in April. US Corporate news was mostly supportive with a strong 2Q earnings season and rising M&A activity.

However the macro picture dominated globally with weaker economic releases undermining confidence in the US economy's momentum and the eurozone fiscal crisis adding to caution. As we discuss later, we think the US economic weakness has been heavily influenced by the Japanese tsunami and effects on US auto production, which we expect to normalise in Q3.

Major Australian company news saw earnings downgrades from retail and media companies due to a subdued domestic economy, while Leighton Holdings warned of lower profits due to problematic projects and Woodside Petroleum flagged a significant cost over-run at its Pluto-1 LNG project.

### Performance Review

Over the quarter, Northward's portfolio returned -3.31% versus the ASX 300 return of -4.26%, resulting in an outperformance of 95bps versus the market.

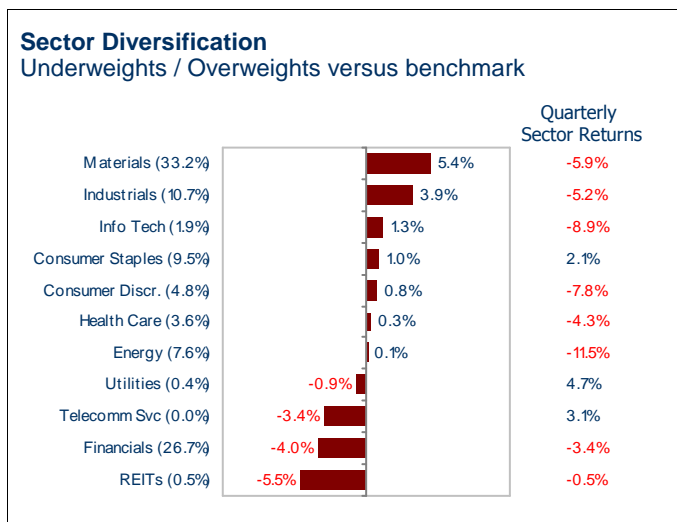
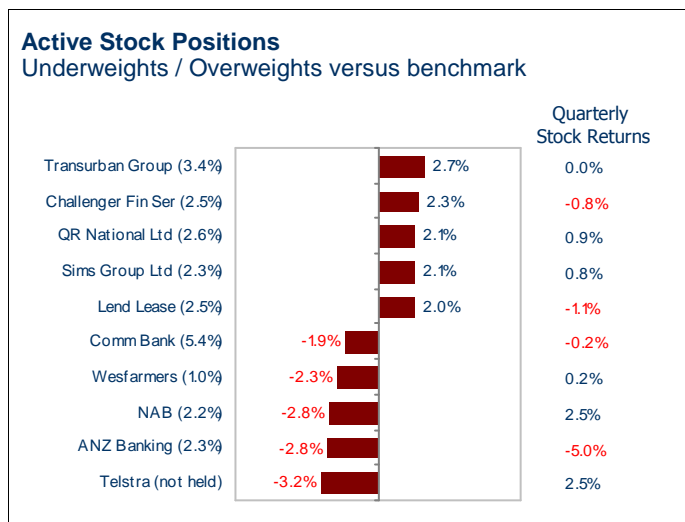
Contributors to performance included Equinox Minerals, Crown, QR National and Brambles.

The Reserve Bank maintained its cash rate target of 4.75% for the second consecutive quarter; while domestic economic news became more mixed with jobs data notable among the disappointments. RBA communications suggest the RBA remains fixated on demand pressures due to major resource and energy projects, with a tightening bias remaining. The tone of US releases also softened with jobs gains slowing and business and consumer sentiment falling. The People's Bank of China raised its key lending rates once during the quarter and bank reserve requirements three times.

Looking forward to the second half of the year, we think there is good reason to expect a rebound in the market. Firstly, we expect better economic data releases in the US due to the cycling of supply disruptions from Japan's tsunami impact on US GDP plus the positive consumer spending effect of declining gasoline prices. In China we envisage the end of the tightening phase, which would be positive for commodities and resource stocks generally, while in Australia we expect an easing of interest rate hike concerns.

Detractors to performance included ERA, Telstra, Gloucester Coal and Iluka Resources.

**Fund Composition**



**Portfolio Strategy**

Over the past two months, the Australian market has corrected a little more than the US and other major markets, partly as a result of commodity prices pulling back and the risks there, but also it seems because of concerns about higher interest rates, particularly when the economy doesn't look that strong. There have also been earnings downgrades, with the rise in the AUD and just the generally subdued business conditions in many industries. The decline in the market has now taken it down to a market multiple of 11.2x consensus forward earnings, as low as it reached through the middle of last year.

In recent times we have had some easing in concerns about further interest rates rises, as the RBA responds to the evolving economic data (even while maintaining its determined view on rates over the medium term). What we are seeing now is slowing in growth and employment and likely continued subdued underlying inflation, encouraging an extension of the pause on interest rates, till late in the year or next year.

The prospects for the Australian market over the remainder of the year will continue to remain dependent on renewed momentum in the US economy, an end to the tightening phase in China, and a clearer resolution of sovereign debt issues in Europe. With an easing in investor concerns regarding the Greek debt crisis, the US economic recovery and the Chinese handling of inflation, there is potential for the market to trade on a higher multiple due to an improvement in risk appetite and sentiment.

We firmly believe the US economy has regained momentum. Importantly, much of the recent weakness in the data looks to be a supply problem, not a demand problem. This is evident in the steep slide in auto production, and apparent vehicle shortages in US showrooms. The US economy lost steam in mid-2Q11 and we think the weaker growth was largely a reflection of two key, temporary, events; supply chain disruptions from the Japan natural disaster, and the hit to real personal spending from the initial surge in gasoline prices. The US economy also recorded its second-largest industrial output gain on record in May, with output up 5.7% month-on-month, suggesting production should return to its pre-quake levels by June. This hints at a better US supply chain, and firm bounce in US production, as soon as early 3Q. The leading indicators make this clear. In conclusion, firm fundamental US growth drivers remain in place and these should come through in 3Q.

China remains a key swing factor for Australia, which remains heavily leveraged to China's industrialisation and successful policy implementation by the PBC. China's efforts to tackle rising inflation remain a key focus and we are optimistic that the series of rate rises since October 2010 are probably coming to an end. This would be positive for resources and the market generally. Construction activity, steel production and iron ore imports remain strong and are likely to remain so for quite some time. Underlying steel production remains strong at a 702Mtpa run rate through the first five months of the year, and iron ore imports remain buoyant, despite currently very high prices.

While the short-term outlook for Chinese property sales is mixed, the pipeline of construction activity looks strong, particularly with social housing only reaching full momentum of 10m units pa from 2012. Some of the clearest indications of Chinese growth resilience come through the property construction figures: the official NBS statistics report 24% growth in new floor space started over the year to May 2011, and this excludes the contribution of social housing. The public housing programme and targets are exceptionally important, so much so that policy constraints on the private market will be quietly relaxed in order to ensure the continued strength of government revenues, which in turn fund public housing.

We retain a cyclical bias in our portfolio, which is leveraged to key growth themes driving the domestic economy (mining investment/volumes), stocks exposed to the US recovery and a continuing positive growth backdrop in China. Our portfolio remains overweight Materials, Industrials, Commercial Services and Transport, whilst retaining an underweight in REITs, Banks, Telcos, Consumer Discretionary Retail and Utilities.

**Portfolio Activity**

Position Change	Holding	Start %	End %	Activity
Sold	Asciano Group	0.5%	0.0%	We exited our position in AIO to further increase our holding in QRN.
Increased	Amcor	1.8%	2.7%	AMC has underwritten strong +20% eps growth for the next 3 years courtesy of the Alcan packaging and Ball Packaging acquisitions. It has a low sensitivity to the US dollar and a high sensitivity to the Euro, and will also be substantially undergeared in 3 years time. AMC also offers solid growth in Asia and Latam. Its core business – Flexibles – offers very stable earnings due to the leverage to FMCG. The other Flexibles business – Pharmaceuticals is also low risk, but higher growth. PET and Tobacco offer steady growth. The strong underlying story of Alcan integration synergies, longer term procurement benefits and growing emerging market exposure, makes for a compelling long term story.
Increased	Resmed	1.1%	1.6%	RMD - Rollout of the last of the products in the S9 platform should see an improvement in the momentum of the US machine sales. Discounting in order to clear old stock and a lack of orders in anticipation of the new model will have ceased as we enter FY12. Mask sales remain very strong with the new Mirage mask range winning considerable share. The S9 platform also continues to trade well in Europe. We maintain a BUY as RMD is likely to return to more normal trading patterns now the S9 platform is fully released. It is also worth noting the potential to put to work a significant amount of cash on the balance sheet remains.
Increased	QR National Ltd	1.6%	2.6%	Our increased holding is based on 3 reasons: - 1) QRN is very undergeared 2) QRN has large cost out potential and 3) QRN earns substantially lower EBITDA margins than Pacific National, which is 100% take or pay in Queensland now. As much as 65cps could be returned to shareholders just by regearing to AIO's current gearing levels, which are not onerous. Over the next 10 years, QRN's Qld contracts will move 100% to take-or-pay pricing. For 2012, this figure is only 36%. It is worth noting that to generate a share price over \$4.00 QRN does not need to win large growth vols in the Qld coal chain expansion (the met coal market is expanding from 125mtpa in 2005 to 183m by 2015).
Increased	Woolworths	3.7%	4.5%	We increased our overweight position in WOW after exiting WDC. Analysing WOW's returns indicates to us that if the food and liquor industry grows at historical rates of 6% pa and WOW only holds market share, the group can be expected to sustainably grow earnings at 8% pa, whilst paying a dividend of 5%, giving a total return of 13% pa from the current share price of \$27.63.
Increased	Computershare Ltd	1.1%	1.9%	CPU is now trading on cyclically low earnings and a cycle low PE and therefore represents good value. M&A activity remains subdued as do interest rates, both of which are high margin earners for CPU. The stock has traded down on the risk of some downgrades to FY12 earnings. The acquisition of the BNY Mellon Shareholder Services business would be viewed as a very positive development, both economically and strategically. If successful, the deal is +10% EPS accretive on the \$70m of synergies announced by CPU (which is likely to be a conservative estimate). Additionally, the acquisition would give CPU a material scale advantage within the transfer agent industry. At this stage it seems there is not a lot of client push back, however client retention will be key. A decision is probable in the next six months, with very little probability of a positive outcome being factored into the current share price.
Increased	Gloucester Coal Ltd	1.1%	1.2%	We increased our position after GCL purchased a new asset, Donaldson Coal and as a result conducted a capital raising in order to help fund the acquisition. The raising was at a steep discount to the prevailing share price and as we believe the newly acquired assets represent good medium term value, we participated in the capital raising.
Increased	Brambles	2.2%	2.8%	CHEP's emerging markets such as Latin America, Central and Eastern Europe, China and India are driving growth for Brambles, while CHEP's larger, more traditional markets like USA, Spain and Australia continue to struggle due to benign economic conditions. Our Buy case centres on the new acquisition of IFCO's +\$150m EBIT contribution in 2012, the decline of IGPS plastic pallets as a competitive threat in the US and the potential sale of Recall for >\$1.8bn for reinvestment into equipment pooling and expanding markets such as Asia, Eastern Europe and Latam.
Decreased	Westfield Group	0.7%	0.5%	For Westfield, splitting out WRT has increased the group's exposure to development profits but it retains substantial exposure to passive rental income. Although WDC have recently increased their development pipeline estimates, the high household leverage and poor retail environments in their key markets of Australia, US and UK imply future development levels will remain subdued relative to historical levels.
Decreased	Lend Lease	3.1%	2.5%	We remain very comfortable with our BUY call and overweight on LLC. We trimmed our position into share price strength to reinvest in other opportunities.
Decreased	Oil Search	2.6%	1.9%	Oil Search continues to represent good long term value and as a result we continue to hold an overweight position. The stock has performed strongly recently and as such we switched some of our holding into Woodside as we see some increasing risks of delay in the PNG LNG project.

## Stock in Focus

### Fosters Group (FGL)

**Current Market Price: \$5.15**

**Target Price: \$5.40**

Fosters is now primarily an Australian brewer, with some licensed international beer sales, with product sold in 45 countries worldwide. Being the largest brewer with approx. 50% market share in Australia, Fosters has 4 breweries nationally, 3 breweries internationally, 2300 employees and manages 50 brands including the leading beer brands VB, Fosters, Crown, Carlton. The portfolio also includes cider, spirits and RED brands (eg. Strongbox and Cougar).

Fosters Group demerged in May 2011 separating the beer and wine business. The demerger announced in May 2010 was viewed as a catalyst to realise value in the beer business. For many years, the rating of the beer business had been undermined by the challenges of oversupply in the Australian wine industry and the strength of the AUD. Beer is a highly cash generative business which often subsidised the long maturity and asset intensive wine business. The combined value creation since announcement of the demerger is approx 20% (including 5% dividend yield) compared to the index being flat.

John Pollaers, the new CEO previously with the spirits giant Diageo, started early April 2010. He is very well respected in the industry and is seen as change agent, willing to take risks and empower his staff. Under his leadership the market share slippage had stabilised, execution disciplines improved and much of the leadership team has been rebuilt.

The beer market is a duopoly with the largest 2 players having approximately 90% share in the off and on premise markets. Price has been a material driver of earnings growth for many years with real price taken biannually with the regulated excise change. As such, on a relative basis Australia is a highly profitable market place and approx 6% -7% of the global brewing profit pool. Since LNN was acquired by Kirin (a Japanese beverage conglomerate) the industry dynamics have changed little.

It didn't take long post demerger for a bid to be made for Fosters. SABMiller have made a \$4.90 cash offer, which was quickly rejected by the board. To do so, SABMiller have had to offer to buy out CCL of their PacBev JV. Through PacBev, SAB have been operating in Australia for 6 years, allowing a clear assessment of Fosters in the marketplace and obviously a well developed strategy to take the business forward. Additionally, SAB being the second largest brewer globally would bring buying power, operational excellence and incredible consumer insight. At \$4.90 the acquisition is clearly accretive for SAB and ROIC positive within their 4-6yr requirement with little synergies. With SAB's operational best practice and category management, they should be able to stabilise and reinvigorate the FGL brand stable, which would allow a return to true duopolistic pricing environment, leading to positive value creation for SAB shareholders.

The global brewing industry has undergone much consolidation. To get real access to the Australian profit pool, buying Fosters is the only option. The demerger was orchestrated with the intension of separating wine, seen as a poison pill, from the attractive beer business. As such we believe SAB and FGL will engage and a higher bid will be forthcoming.

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