

### Portfolio Review

Equity markets were soft during May as investors remained cautious about the deterioration in macro news flow and the outlook for inflation. Commodity prices remained volatile reflecting shifting views around interest rate settings and a weaker USD, while profit announcements were mainly in line with market expectations. May also saw the spin-off of Foster's wine assets and a number of high-profile offshore IPO's including LinkedIn and Glencore.

The Australian market (ASX 200) traded lower before finding support again at the 4550-4600 level, finishing the month down 2.4%. The index remained firmly within the trading range that has marked the last 20 months; its May close was 0.7% below where it ended September 2009. Uncertainty over economic momentum and the interest rate outlook remained a feature, while weak credit and jobs numbers raised concerns over the non-commodity sectors of the economy. Building activity and house prices remained soft while consumer confidence and labour market growth also declined. Corporate news tended to reinforce this with a number of companies downgrading guidance during the month, notably in the media, retail and steel sectors.

The Bank sector's outperformance during the first four months of the year was almost entirely erased in May; the banking sector accumulation index was 6.1% ahead of the ASX200 at April's close but May cut this back to 2.0%. Weak mortgage growth numbers fed concerns about housing market conditions. The Resources index (-1.5%) beat the market despite weakness in many commodity prices.

The People's Bank of China raised the reserve requirement ratio by 50bp, the eighth such move since November, while CPI grew at an annual rate of 5.3% in April with food prices rising at 11.5% y/y compared to 11.7% in March. The non-food index rose at 2.7%, the same rate as the prior month. Economists see one more strong Chinese CPI number for June and then potentially a pause for the rest of the year, which would be positive for resource stocks.

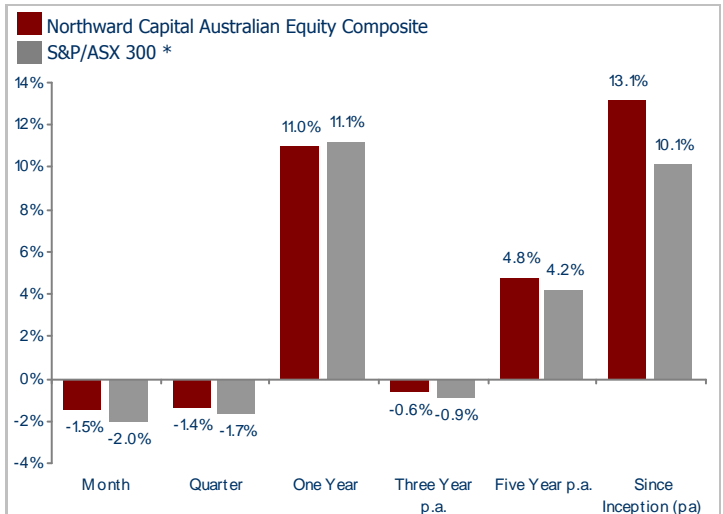
We reduced our banks exposure and retain a cyclical bias to the portfolio with increasing leverage to international companies. Portfolio transactions in May included increases in our holdings in Gloucester Coal, Amcor, Newcrest, Brambles, Resmed and Hendersons. Holdings in Oil Search, ANZ and Lend Lease were reduced, while we exited our position in Equinox Minerals.

### Fund Results

Portfolio Results	Month
Northward Capital Australian Equity Composite	-1.47%
S&P/ASX 300 *	-2.02%
<b>Value Added</b>	<b>0.55%</b>

Stock Contributors	Overweight (+) Underweight (-)
Brambles	+
Lend Lease	+
Transurban Group	+
Equinox	+
Crown Ltd	+

Stock Detractors	Overweight (+) Underweight (-)
Telstra	Not held
Iluka Resources	Not held
Gloucester Coal Ltd	+
Lynas Corp	Not held
Westpac Bank	+



- (1) Market value of the investment as at month end was \$2,705.16 Million
- (2) Inception return is calculated from 1 June 2004
- (3) Returns are calculated gross - before taxes, before fees
- (4) \* Benchmark was S&P/ASX 300 ex LPTs prior to 1 May 2009
- (5) Composite of accounts with similar benchmark (9 accounts in current month)
- (6) Risk stats (where applic) based on mthly returns over rolling 3 year periods

### Fund Composition

#### Active Stock Positions

Underweights / Overweights versus benchmark

Stock	Weight	Monthly Stock Returns	Benchmark
Transurban Group	3.4%	2.8%	3.0%
Challenger Fin Ser	2.4%	2.2%	-0.6%
QR National Ltd	2.6%	2.1%	0.6%
Lend Lease	2.4%	2.0%	2.9%
Rio Tinto	5.1%	2.0%	-0.9%
ANZ Banking	3.3%	-1.7%	-6.1%
Comm Bank	5.1%	-1.7%	-5.8%
Wesfarmers	1.0%	-2.3%	-0.3%
NAB	2.2%	-2.8%	-2.2%
Telstra (not held)		-2.9%	3.8%

#### Sector Diversification

Underweights / Overweights versus benchmark

Sector	Weight	Monthly Sector Returns	Benchmark
Materials	32.4%	4.0%	-1.5%
Industrials	10.4%	3.5%	0.9%
Consumer Discr.	4.8%	0.9%	-3.1%
Info Tech	1.5%	0.8%	-3.6%
Consumer Staples	8.8%	0.5%	0.5%
Health Care	3.7%	0.4%	-1.6%
Energy	8.1%	0.2%	-0.9%
Utilities	0.5%	-0.8%	0.4%
Financials	27.1%	-3.0%	-4.9%
Telecomm Svc	0.0%	-3.1%	4.2%
REITs	1.0%	-5.0%	-0.0%

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