

### Portfolio Review

The Australian equity market rose by 6.6% over August as investors reacted favourably to the corporate reporting season. Earnings per share for the market fell by 15% in FY09 as a result of the economic downturn, dislocation in financial markets and significant equity issuance.

The market was buoyed by the lack of further negative surprises. In particular, operating margins and cash generation were strong as companies were able to cut costs in response to falling demand. Although margins for FY09 were low by historical standards, good cost control did prevent steeper declines. Companies are therefore in good shape to expand margins in the economic upturn.

As a result, the market has upgraded earnings forecasts for FY10 by circa 5% and over 20% for FY11, suggesting we are at the beginning of the next earnings upgrade cycle. Upgrades were particularly strong for Industrials over the month.

Notwithstanding the more positive tone, the market's desire for "risk" has seen a number of poorer quality companies rallying too aggressively in our view, which has contributed to portfolio underperformance compared to the benchmark. However, we continue to look for opportunities to add undervalued cyclicals to the portfolio.

In terms of company guidance, while management issued cautious outlook comments, the overall impression from companies was that demand had ceased declining and while there were no tangible signs of improvement, current operating conditions appeared to have stabilised (i.e. the worst was over).

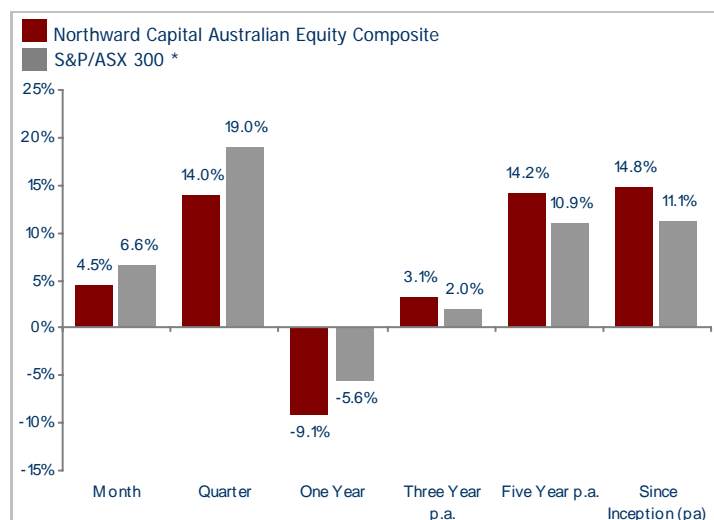
During August we initiated new positions in Sonic Healthcare, Coal & Allied, Centennial Coal and Seek, and lifted our holding in Hendersons. Portfolio sales of note included Suncorp Metway, while we exited positions held in Energy Resources Australia and QBE.

### Fund Results

Portfolio Results	Month
Northward Capital Australian Equity Composite	4.55%
S&P/ASX 300 *	6.64%
<b>Value Added</b>	<b>-2.09%</b>

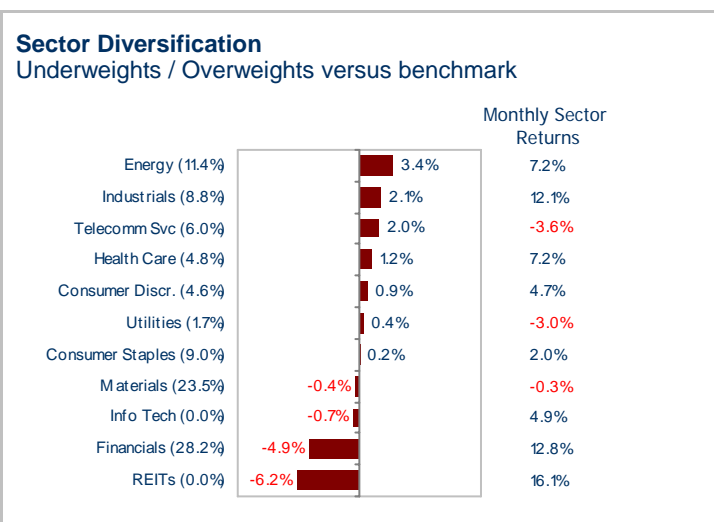
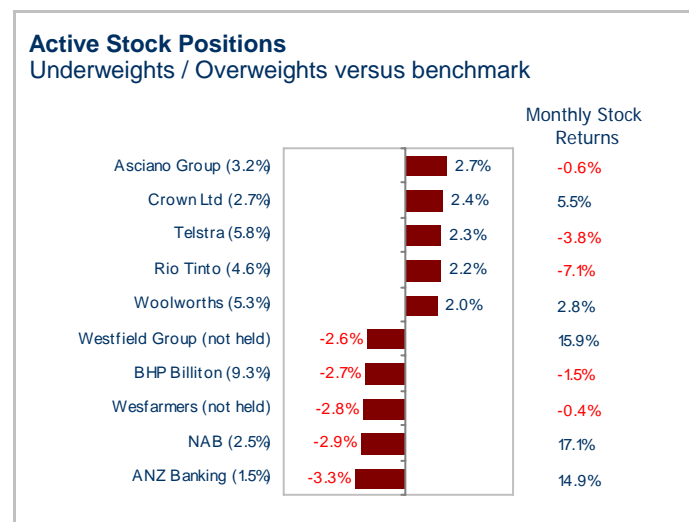
Stock Contributors	Overweight (+) Underweight (-)
BHP Billiton	-
Wesfarmers	Not held
Lend Lease	+
BlueScope Steel	Not held
Brambles	+

Stock Detractors	Overweight (+) Underweight (-)
ANZ Banking	-
Telstra	+
NAB	-
Rio Tinto	+
Western Areas	+



- (1) Market value of the investment as at month end was \$1,438.23 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 (8 accounts in current month)
- (6) Risk stats (where applic) based on mthly returns over rolling 3 year periods

### Fund Composition



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