

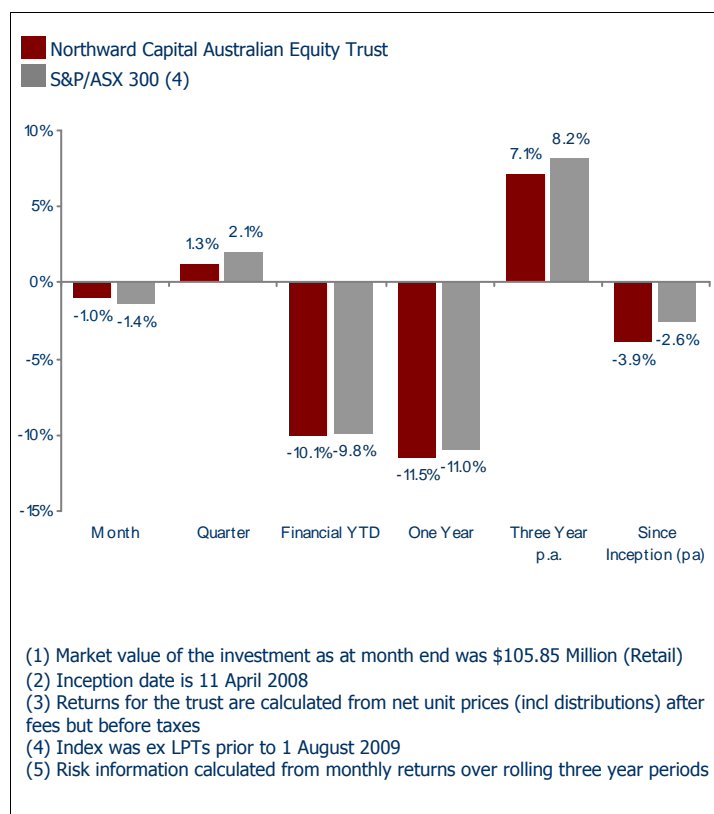
Fund Results

Portfolio Results	Quarter
Northward Capital Australian Equity Trust	1.26%
S&P/ASX 300 (4)	2.05%
Value Added	-0.79%

Stock Contributors	Overweight (+) Underweight (-)
Iluka Resources	+
Gloucester Coal Ltd	+
Wesfarmers	-
Western Areas	+
News Corp CDI	+

Stock Detractors	Overweight (+) Underweight (-)
Resmed	+
Telstra	Not held
Newcrest Mining	+
Energy Resources Aus	+
Henderson Group	+

Risk Information	
Standard Deviation	13.2%
Tracking Error	3.3%
Information Ratio	-0.3



Market Review

Volatility remained the name of the game over the December quarter. The main features that stood out as constants were the steady stream of negative macro data out of Euroland, further evidence of the continuing economic recovery in the US and the weak domestic economic environment resulting in a number of profit warnings.

2011 was notable for the disparity between the Dow Jones performance of 5.5% versus the ASX200 -14.5%. After a reasonably positive start the market peaked at nearly 5000 in April and then risk aversion took hold due to increasing uncertainty around the European financial system and the ability of Euro governments to come up with fiscal and funding solutions. Remarkably the AUD vs the USD was unchanged at year end at 1.02. The year essentially became a tale of two halves with the first half being 'risk on' (equities, high yield bonds emerging market debt) and the second half being 'risk off' with treasuries, IG bonds and precious metals all doing well, while equities and high yield bonds suffered. In the US the big losers were Diversified Metals & Mining down 38%, the S&P Gold Index only fell 2.3% (versus the gold price +1.1%), while Broadcast & Cable TV put on 15%, S&P Pharma +13% and S&P Retail Food +10%. Locally the best sectors were Telecoms, Utilities and Industrials, while Resources and Consumer Discretionary lagged.

Performance Review

Over the quarter, Northward's portfolio returned 1.26% versus the ASX 300 return of 2.05%, resulting in an underperformance of 79bps versus the market.

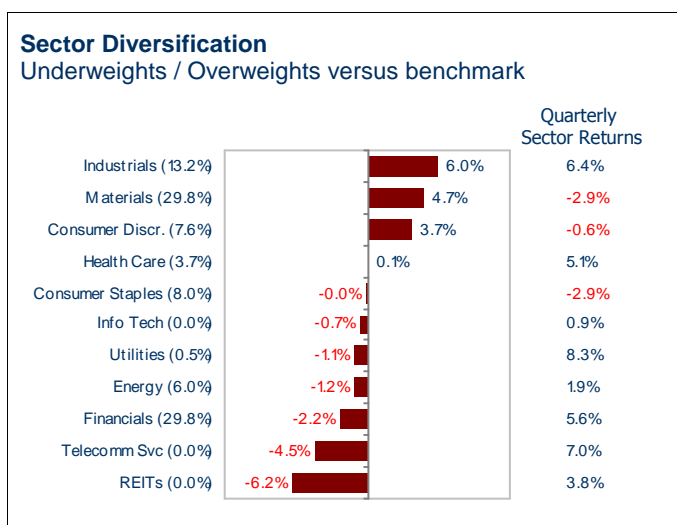
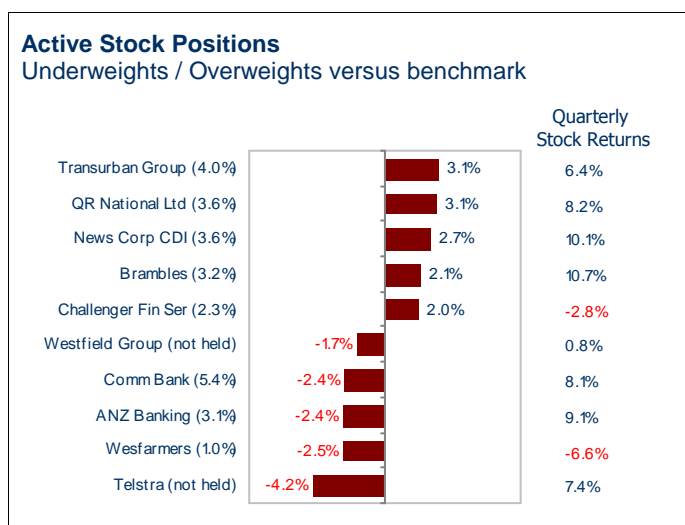
The fourth quarter of 2011 saw the S&P500 index (+11.2%) claw back the majority of its loss (14%) in the third. However, volatility remained high; the VIX index of implied volatility averaged 30 for 4Q compared with 18 in the first half of the year. A firmer tone to economic data supported cyclical sectors such as Materials (+14.7%) and Industrials (+15.7%), though Financials (+10.2%) lagged for the fourth straight quarter.

The AGM season last quarter was highly mixed with cautious trading commentaries and outlook statements from companies such as Pacific Brands, Toll, Wesfarmers and Woolworths, who cited weak consumer confidence and a struggle to grow volumes. Retailer updates were highly negative as evidenced by earnings downgrades for David Jones, Billabong, JB Hi-Fi and Kathmandu. However, Brambles, Monadelphous Group and Sonic Healthcare were more upbeat. Banks stressed higher funding cost pressures and flagged possible difficulty in passing on policy rate easing, although the majors reflected both RBA cuts in full in their standard variable mortgage rates.

Contributors to performance included Iluka, Gloucester Coal, Wesfarmers, Western Areas and News Corp.

Detractors to performance included ANZ, Newcrest Mining, Telstra (not held), ERA and Resmed.

Fund Composition



Portfolio Strategy

In 2011 the markets were driven by macro themes and events with very high levels of correlation between asset classes. Stock and sector correlations in the Australian and US equity markets reached a 25 year high in 2011 dampening alpha across managers. 2011 was a difficult year in equity and bond markets, with the volatility that has characterised conditions since August continuing into the final weeks of the year.

Clearly Europe has been the region of most concern, where fears of a major sovereign default or breakdown of the Eurozone have persisted. More stable markets aren't expected to prevent a significant slowing in European growth or tighter financial conditions, where economists are forecasting 0.4% GDP for 2012 including negative first half growth, nor alter the difficult medium-term challenges many Eurozone countries face in lowering sovereign debt and structurally reforming their economies.

Despite this, the last month's data has provided encouragement that markets might improve in 2012, even though there is still significant uncertainty. The most promising development has been some stabilisation in European bond markets, since the ECB's initiatives in early December, including the decision to provide term loans of up to three years to banks at low interest rates, with access to these funds now appearing to support sovereign bond markets. Also positive has been the surprising resilience of the US economy, with recent signs that the recovery might be broadening with the improvement in unemployment and housing indicators. And the recent moderation in Chinese inflation has also been helpful, providing the authorities with some flexibility to support growth in 2012, which would be a big positive for the Australian resources sector.

In 2012 – barring a major shock such as an EMU country exiting the Euro, which we and the market don't expect – systemic risk should ease resulting in greater dispersion in returns. The equity and credit markets are currently pricing in a fairly negative market environment for 2012. All investors now expect a recession in Europe in the first half of the year, while US data has been better than expected in recent months. Inflation finally is no longer an issue in China, while here in Australia we have commenced a new rate-cutting cycle, which will put pressure on term deposit rates and re-focus investors on the equity market.

It is helpful to start the year with attractive valuations both here in Australia and the all-important US market. The earnings yield gap (10 yr Treasuries less S&P500 Earnings Yield) is at levels last seen in early 2009 and in the 1970s in the US. Both the US and Australian markets are two to three standard deviations below average. In the near term there are more earnings downgrades to come through with non-bank industrial earnings looking weak again in the December half, while broad downgrades of many resource companies will occur given current spot commodity prices are well below analysts' forecasts. These are largely known, as is the fact Euroland will be in recession.

There are a number of reasons for investors to maintain bearish positions in equities, but sentiment is sufficiently circumspect to make markets vulnerable to good news. With cyclical industrial stocks at modest valuations compared to the more resilient defensive sectors and cuts in domestic interest rates in 2012, it is worthwhile to selectively increase exposure to some cyclical stocks that do not face structural challenges.

We have reduced our Consumer Staples positioning and added a domestic cyclical in Seven West Media, which is trading at very cheap multiples, while adding exposure to the mining services volume thematic via contractor/iron ore producer Mineral Resources. Pure play commodity exposures have been added in iron ore – Fortescue Metals and coal – Whitehaven Coal. Much of our strategy involves increasing our overweights to companies with strong internal growth drivers – News Corporation, Transurban, Brambles, Amcor and QR National being examples of companies who are and can grow earnings strongly despite the soft economic environment globally and domestically.

Portfolio Activity

Position Change	Holding	Start %	End %	Activity
Sold	Coal & Allied Industries Ltd	0.8%	0.0%	The fund sold out of CNA during the quarter. The company was taken over by a joint bid from Rio Tinto and Mitsubishi. We accepted the bid of \$125 per share which included a \$8 fully franked dividend.
Sold	Foster's Group Ltd	1.9%	0.0%	FGL was sold into the successful SAB Miller takeover in late December.
Sold	Treasury Wine Estates Ltd	0.4%	0.0%	TWE was sold out of the portfolio after it traded through our target price. We have reservations about the success of TWE's US strategy as well as the continuing high AUD impacting export margins.
Purchased	QBE Ins Grp	0.0%	0.6%	QBE offers a diversified exposure (by geography and line of business) to global general insurance markets. While market conditions (notably premium pricing) are not expected to improve significantly in the near term, QBE has a strong management team and is well positioned to capitalise on improving markets in the medium term. Trading at 8.5x CY12 PE and almost 10% yield, QBE represents sound medium term value in our view.
Purchased	AMP	0.0%	1.6%	AMP offers a reasonably priced exposure to the Australian (and Asian region) wealth management industry which is forecast to grow at 10% pa. AMP's strong brand, scale position and planner network means it is well placed to compete in a lower fee environment. Realisation of our valuation target of \$5.30 will arise from supportive market conditions, execution on synergy targets and ongoing cost containment.
Purchased	Mineral Resources Ltd	0.0%	0.9%	MIN was added to the portfolio to gain exposure to the services sector in the WA iron ore industry. MIN has a strong contract iron ore crushing business with clients such as Rio, BHP and FMG. It also has a developing iron ore production arm as well as manganese production.
Purchased	Primary Health Care Ltd	0.0%	1.2%	We added PRY back into the portfolio over the qtr. Earnings growth through FY12 is expected to be fuelled by doctor acquisitions, a recovery in pathology volumes and the refinancing of expensive debt locked in post the GFC. Medical services in Australia provides a defensive income stream, organic growth, and good cash conversion. With no exposure to currency fluctuations or the economic cycle, PRY should provide relative operational earnings certainty.
Purchased	Fortescue Metal	0.0%	1.1%	We have added FMG to the portfolio. We remain positive on the iron ore market as we believe the supply side will fall well short of market expectations, particularly from India, Brazil and from new smaller developments. We also believe that demand will remain robust. FMG is a pure iron ore exposure with a significant growth profile.
Increased	Whitehaven Coal Ltd	0.3%	1.1%	The fund increased its exposure to WHC during the period. WHC has high quality management and a strong growth profile, and with our current positive view on both thermal and metallurgical coal, is representing good value. It should be noted that during the period, WHC and Aston Resources entered into a merger agreement. We believe that this agreement will benefit WHC, adding a large quality asset to its portfolio.
Decreased	Sydney Airport	2.3%	1.5%	Our position in SYD (MAP) was reduced after a period of sustained outperformance to fund an increased position in MIN.
Decreased	BHP Billiton	12.3%	10.8%	We decreased our position in BHP during the quarter. We predominantly used the funds generated by the sale of BHP to invest in more leveraged single commodity companies such as FMG (iron ore) and WHC (coal).
Decreased	Woodside Petroleum	3.0%	1.3%	The portfolio decreased its exposure to WPL during the quarter. WPL has a strong base business, particularly in LNG, and with the delayed Pluto project starting operations in March 2012, the company will have an increased production profile. However, the growth of the business is being questioned by the market, with expectations now being of some delays to the implementation of Pluto Stage 2, the Browse project and the Sunrise project.

Stock in Focus

Transurban Group

(TCL)

Stock Price - \$5.60

Target Price - \$6.40

Over the last four years Transurban has transitioned from a poorly managed and highly geared business to that of a much more soundly managed one with an appropriate capital structure. The previous management team under CEO Kim Edwards and Chairman David Ryan relied heavily on excess gearing to pay distributions that exceeded cash flow generation from the business operations. This situation was unsustainable and the new CEO Chris Lynch resolved to restructure the funding position through a major equity raising and fund all future distributions from free cash flow. This change has set a solid foundation for Transurban to deliver a highly defensive stream of cash flow to investors with strong growth opportunities which we believe are underestimated by the market.

Transurban's portfolio consists of six toll roads in Sydney and Melbourne which form the majority of the business value. Transurban also owns one small toll road in the US with another under construction and due to be operational towards the end of 2012. The Australian roads are all in key urban corridors which are in high demand and subject to low levels of discretionary travel. On the more mature roads, expansion opportunities are available to boost traffic growth. Transurban's largest road, the Melbourne Citylink, has recently completed a major expansion. The M2 in Sydney is currently undergoing an expansion and the company has recently come to an agreement with the NSW Government to expand the M5. These organic expansions are likely to provide a higher return on capital than the portfolio average due to Transurban's unique monopoly ownership position. In addition to ongoing traffic growth of 2 to 3 per cent, tolls increase either at fixed rates or in line with inflation providing further growth in revenues.

Since taking over as CEO and CFO, Chris Lynch and Tom Honan have focussed on maximising free cash flow generation from business through a combination of maximising revenue and minimising costs. This has involved a focus on reducing management expenses highlighted recently by a rationalisation of the senior management team. Also, far less money is being expensed now in finding acquisition opportunities. Road operational costs are also under the microscope with maintenance contracts being consolidated and re-negotiated. The capital structure is appropriate with modest levels of gearing (given the level of certainty around revenues) and any equity required for likely expansions already funded. The finance team has worked hard to diversify both maturity and source of debt funding.

The 12mth Target Price for Transurban is \$6.40 based on an IRR using a 10% discount rate. A solid yield is fully backed by free cash flow generation and together with a strong dividend growth forecast provides a high total return over the medium term. It is possible that the Capital Beltway (under construction in the US) may also provide possible upside to our current valuation but this is excluded for conservatism. We believe there is probable upside to 2013 consensus dividend estimate of 33cps as cash flows continue to benefit from traffic growth driven by Citylink and M2 expansions.

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