

Portfolio Review

October was the first down month for the market since the rally began in March, falling 2.1% in line with the S&P500. Northward's portfolio had a strong month as the market pulled back and some of our individual holdings shone. October saw a reversal of recent strong sector performances as the All Inds sector (-2.1%) underperformed the Resources sector (-1.1%), and Large caps (-2.1%) underperformed Small caps (-1.2%).

While domestic economic data remained strong, equity markets tracked global markets lower following weaker than expected US consumer and housing data. As expected, the RBA raised the official cash rate by 25bps in October, confirming the Australian economy is rapidly recovering and marking the beginning of a new tightening cycle. Generally speaking the current Australian AGMs are coming through as expected, with recurring themes such as stabilising demand, inventory rebuild and FX pressure being key factors.

The US Q3 earnings season had a positive bias as >80% of companies which had reported had beaten analyst expectations, with margin expansion through cost-cutting a recurrent theme. We think the large macro trade is stabilising and that the focus will be firmly back on individual company thematics and prospects for better earnings and return on capital, as opposed to just buying all stocks loosely associated with the 'buy risk trade'.

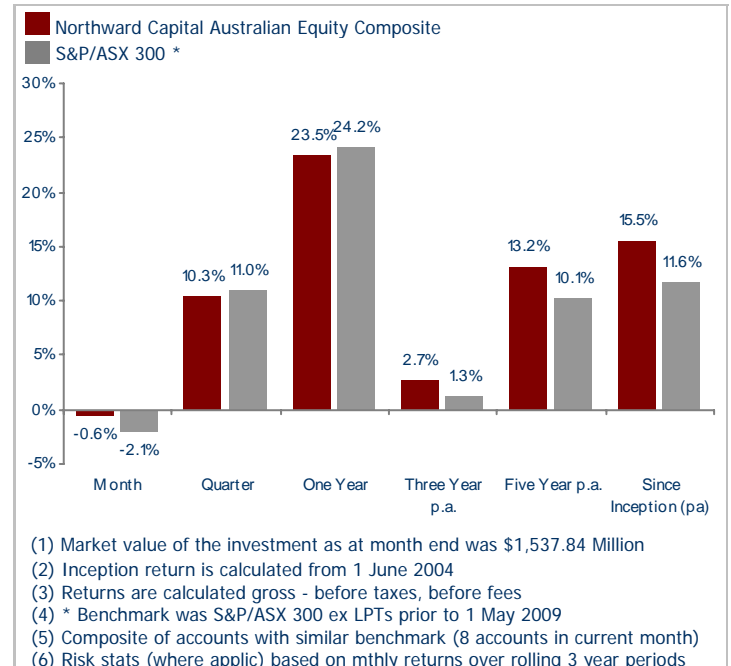
Towards the end of the month the defensive Consumer Staples, Utilities and Telcos sectors gained the ascendancy over cyclicals with REITs and Energy underperforming. Globally the Healthcare sector outperformed, but here in Australia they were held back by the strong AUD. During October we bought more shares in Oil Search, Hendersons and Sonic Healthcare and decreased our exposure to CSL, Newcrest and WorleyParsons.

Fund Results

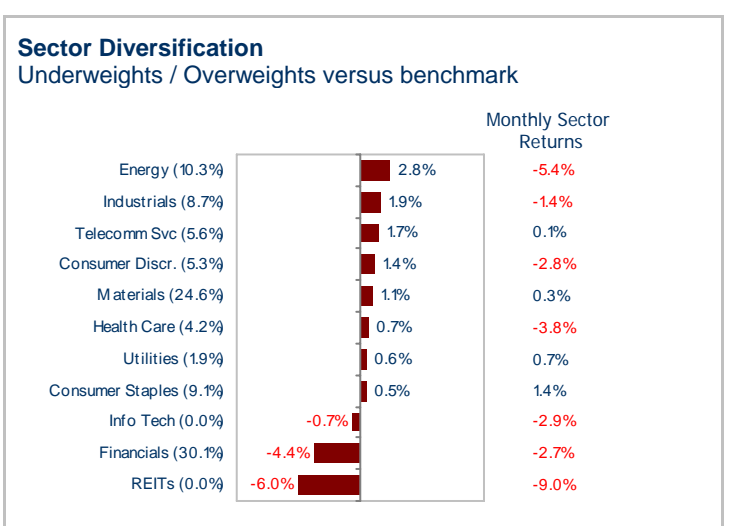
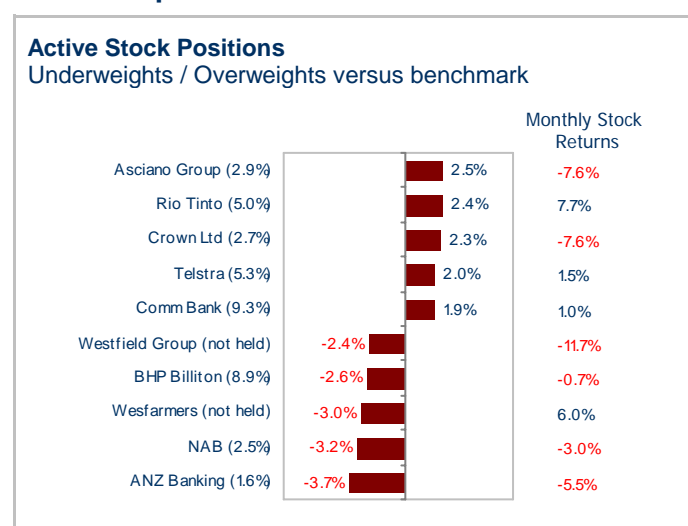
Portfolio Results	Month
Northward Capital Australian Equity Composite	-0.55%
S&P/ASX 300 *	-2.07%
Value Added	1.52%

Stock Contributors	Overweight (+) Underweight (-)
Westfield Group	Not held
Macquarie Group	Not held
Rio Tinto	+
Equinox	+
ANZ Banking	-

Stock Detractors	Overweight (+) Underweight (-)
Oil Search	+
Crown Ltd	+
Asciano Group	+
Lend Lease	+
Wesfarmers	Not held



Fund Composition



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