

### Fund Results

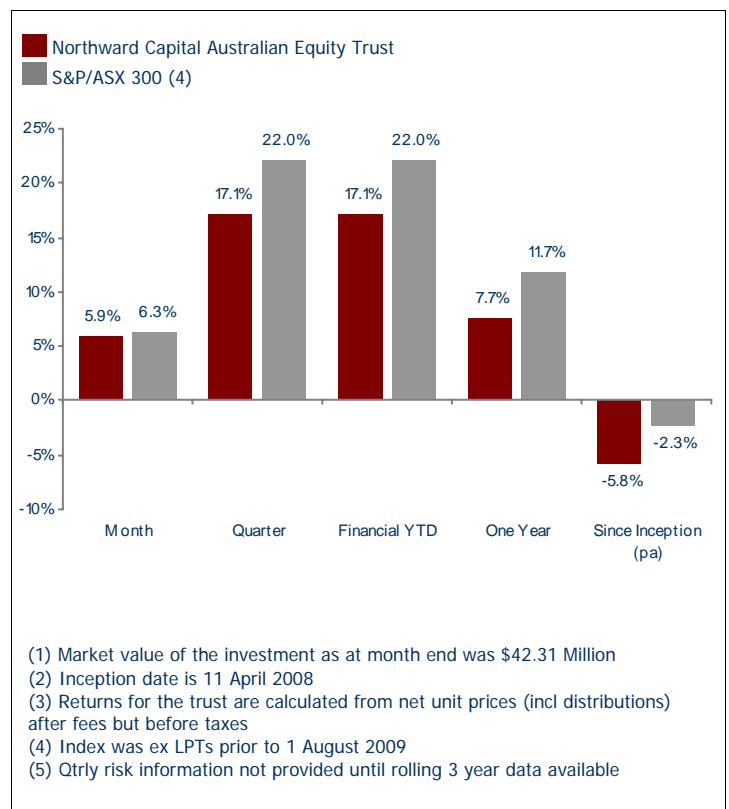
Portfolio Results	Quarter
Northward Capital Australian Equity Trust	17.11%
S&P/ASX 300 (4)	21.99%
<b>Value Added</b>	<b>-4.88%</b>

Stock Contributors	Overweight (+) Underweight (-)
Lend Lease	+
Asciano Group	+
BHP Billiton	-
Comm Bank	+
Santos Ltd	-

Stock Detractors	Overweight (+) Underweight (-)
Macquarie Group	-
NAB	-
Telstra	+
Western Areas	+
ANZ Banking	-

### Risk Information

Standard Deviation
Tracking Error
Information Ratio



### Performance Review

Over the September quarter the S&P/ASX 300 continued to rally very strongly up 21.6%. Against this benchmark the Northward Capital Australian Equities portfolio composite returned 17.7%, resulting in an underperformance of 390 basis points.

Northward's performance over the quarter disappointingly lagged the market's strong buying of domestic and global cyclical, which has seen some good companies with strong franchises such as Woolworths, Coca Cola Amatil and Metcash left behind. We consider the market's desire for "risk" has seen some poorer quality companies rally too aggressively in the near term, which has contributed to portfolio underperformance compared to the benchmark. However, we continue to look for opportunities to add undervalued and well positioned cyclical to the portfolio and we detail a number of these later in this report.

On a sectoral basis most of the underperformance stemmed from underweight positions in Banks, Diversified Financials, REITs and Consumer Discretionary Retailing, and an overweight position to Telcos. Stock positioning in Materials (i.e. underweight construction materials and overweight Gold) also contributed to underperformance.

Significant contributors to fund performance over the quarter included:

Lend Lease – benefited from cheap valuation and associated rally in the REITs sector.

Asciano – continued to benefit from market's increasing appreciation of likelihood of stronger container volumes returning in 2010 as well as new coal contracts won in Queensland.

BHP Billiton – lagged the market due to strong Banks, REIT and Industrials rally.

Commonwealth Bank - outperformance has been driven by greater FY11 earnings certainty as bad and doubtful debt forecasts continue to be revised downwards due to the strengthening Australian economy and subsequent lower unemployment expectations. There is a growing belief that the loan loss cycle will be mild.

Significant detractors to fund performance over the quarter included:

NAB – outperformance has also been driven by greater FY11 earnings certainty as bad and doubtful debt forecasts continue to be revised downwards due to the strengthening Australian economy and subsequent lower unemployment expectations.

Telstra – suffered from new Govt initiatives plus the large Future Fund sell down. The Australian Govt announced a package of reforms aimed at improving the competitive dynamics in the telecommunications industry. The Govt has given Telstra the choice to either: 1) agree to 'structurally separate' voluntarily in which case it could retain its Foxtel stake and the HFC (cable) network and get the additional wireless spectrum it needs, or 2) refuse to structurally separate, in which case the Govt would impose 'functional separation' and prevent Telstra from acquiring more wireless spectrum unless it sells HFC and Foxtel.

Western Areas – lagged the market surprisingly in light of stronger nickel prices.

ANZ Banking – beneficiary of the strong Banks rally. Also ING Group NV has agreed to sell its 51% stake in the life insurance and wealth management joint venture with ANZ to ANZ for €1.1bn (A\$1.9bn) in cash.

Macquarie Group - Macquarie Group said its major businesses improved in the June quarter from the previous quarter and reiterated its profit forecast given in July of midway between 1H and 2H profit figures of FY09. That would be equivalent to \$435.5m, a 28% decline on the prior corresponding period.

### Market Review

The Australian equity market continued to rally over the September quarter as stronger economic data and positive earnings momentum following the solid August reporting season helped propel markets higher globally.

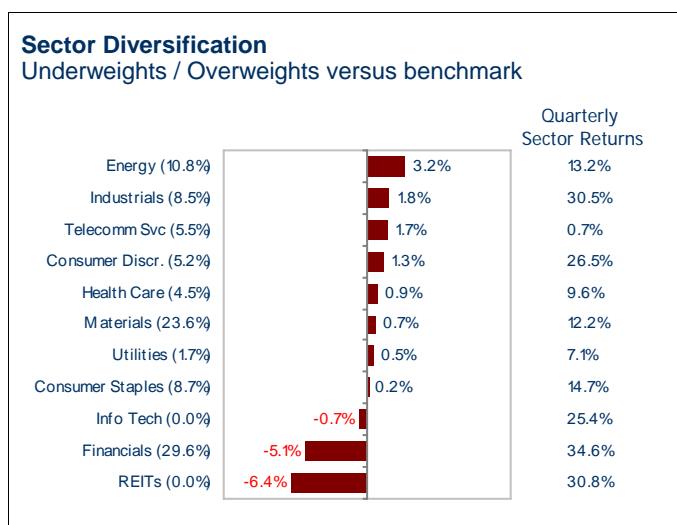
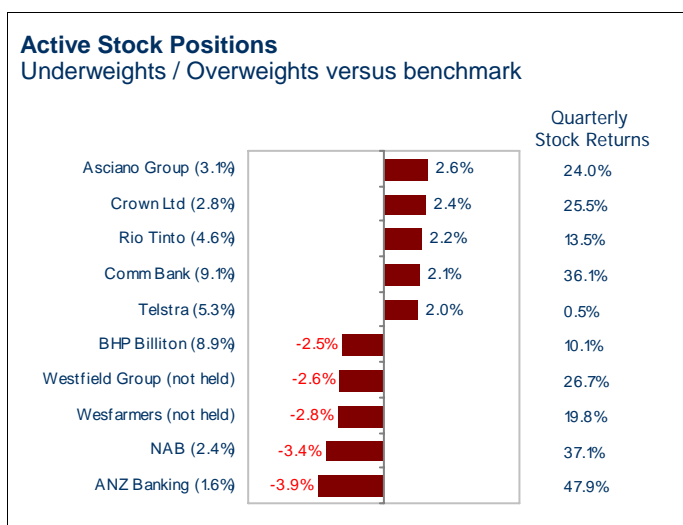
Banks once again drove market returns, as all of the major banks outperformed the market. Outperformance has been driven by greater FY11 earnings certainty as bad and doubtful debt forecasts continue to be revised downwards due to the strengthening Australian economy and subsequent lower unemployment expectations.

Industrials outperformed Resources as investors sought high beta domestic cyclicals with leverage to the economic recovery, while REITs outperformed post widespread recapitalisations.

The reporting season delivered profits and EPS growth comfortably ahead of consensus forecasts. The shift in analyst and market sentiment around the outlook for earnings has seen widespread earnings upgrades continue for FY10 and FY11. Most of this upside surprise came from better than expected operating margins, a function of the aggressive cost-cutting undertaken by many corporates, particularly cyclicals. Upgrades were particularly strong for Industrials.

While most management commentary was brief and conservative, there was nevertheless positive commentary on current conditions by many companies. The data emerging from the local economy continues to suggest better trading conditions ahead for many domestic sectors such as building, media, banking, retailing and transport.

### Fund Composition



### Portfolio Strategy

A major inventory restocking cycle is now underway which, combined with more positive leading indicators, suggests the market, led by cyclical stocks, will trade higher over the next 12 months. Additionally GDP upgrades for Australia, the domestic building and employment cycle recoveries and higher commodity prices are all positives for the sharemarket.

Operating leverage holds the key to earnings growth for many stocks going forward. The market will increasingly focus on the leverage in Industrials' earnings for FY11 as the first half of 2010 will still be recovering from the economic slowdown. We anticipate bottom up broker analyst forecasts will underestimate the EPS upswing as analysts have been downgrading for so many months now, while companies have been paring back operating costs.

It is now reasonably clear that the US, Australian, Chinese and global economies are recovering and that we are at the start of a long earnings upgrade cycle.

As such, we are selectively lifting our exposures to attractively positioned/priced cyclicals. This has been achieved via initiating positions in Seek and Ten to gain exposure to the domestic media recovery and establishing positions in the wealth management sector via Challenger (CGF) and Henderson (HGG).

We have also bought into James Hardie (JHX) primarily for the recovery in the US housing market and JHX's very successful penetration of the siding market. We have lifted our position in Energy/Mining sectors via Whitehaven Coal (WHC), Coal & Allied (CNA) and Centennial Coal (CEY), although we divested from Energy Resources of Australia (ERA).

We have also increased our exposure to small cap stocks as they are typically more cyclical than large caps due to higher operational leverage. As a result, small caps tend to outperform large caps as the market rallies and underperform as the market falls.

In the US and hence globally, we do not consider inflation to be a threat anytime soon because with a 65% manufacturing utilisation rate and a 9.7% unemployment rate, there is ample spare capacity in the US. Here in Australia we also have the benefit of a 90c AUD reducing the cost of imports.

The resilience of the Australian economy, the ongoing impact of strong policy stimulus, the fact that the US ISM index broke into 'expansion' territory for the first time since January 2008, and still easy monetary conditions, presents a continuing favourable backdrop for equities.

**Portfolio Activity**

Position Change	Holding	Start %	End %	Activity
Increased	Seek Ltd	0.0%	0.9%	Seek's recent profit result showed that Australian unemployment has bottomed and is turning up now. As the online category leader, Seek will derive disproportionate market share and profit gains over the next 3 years. Seek offers exposure to the employment advertising markets in Australia, China, Southeast Asia and Brazil; and to the growth in Asian outbound education services seekers, a US\$40 billion market.
Increased	Challenger Fin Ser	0.0%	1.2%	The sale of the mortgage management business was value enhancing and leaves Challenger Financial Services with a strong balance sheet and simplified business model. The annuities business, where Challenger is a clear number one player, now dominates the valuation and is undemanding at a PE multiple of 8x FY10 earnings. We see value to \$4.
Increased	Sonic Healthcare Ltd	0.0%	1.0%	Leveraging their reputation for quality of service in the domestic market, Sonic Healthcare is winning market share and are expanding co-pays successfully. Approx. 50% of the domestic pathology business is routine or automated testing, so additional volumes are at higher incremental margins. Increasing co-pays via the dollar charged and the breadth of tests on the other 50% of the business seems to have been introduced without the loss of market share. Together these effects should be sufficient to recoup the fees cuts to begin in November. With \$700m debt headroom we expect acquisitions should drive positive earnings revisions.
Increased	Henderson Group	0.0%	0.7%	Representing a value play within the Funds Managers, we have recently initiated a holding in Henderson Group Plc (HGG). The New Star acquisition integration is ahead of schedule in regards to both FUM retention and cost out. Earnings accretion from the deal is augmented by leverage to recovering equity markets. Management have excelled in controlling costs during the downturn and look to hold onto some of those savings as markets rise. UK consumer confidence is at an 18 month high which bodes well for retail inflows, and flows across the product portfolio are starting to improve. At 13.5x PE, with approx 25% EPS growth and near bottom of cycle earnings we view HGG as good value.
Increased	Centennial Coal Co	0.0%	1.0%	Centennial Coal (CEY) was added to the portfolio as one of the cheapest exposures to coal. CEY are in the process of changing the mix of their sales from domestic coal to export coal, with a significant increase in price as a result. Importantly CEY are in a strong position to renegotiate higher domestic prices as their contracts rollover in the next few years. CEY's operational performance also appears to be improving, several negative derivative positions rolling off, and the leverage to strong coal prices is improving. CEY have access to a port with no constraints for the export of their coal.
Increased	Coal & Allied Industries Ltd	0.0%	0.9%	Coal & Allied Industries (CNA) was added to the portfolio as we believe the company has high quality coal assets in the Hunter Valley and represents good value given our positive outlook on the coal industry and market. The continued progress towards de-bottlenecking the infrastructure in the Hunter Valley will be of great benefit to CNA due to the current excess capacity in its operations as well as a significantly advanced growth project. CNA's balance sheet is strong.
Increased	James Hardie Inds	0.0%	0.8%	We reinvested back into James Hardie (JHX) for the first time since May 2007. Across the entire spectrum of US housing related data, activity has increased with only existing inventory remaining a drag on a strong rebound in housing starts in the US. JHX has a superior market position with its technology with leading global margins. We anticipate the US housing market will exhibit a faster recovery back to over 1.5m starts by 2011 and that Hardies will continue to increase their share of US siding at the expense of vinyl via the ColorPlus strategy.
Decreased	Primary Health Care Ltd	1.7%	0.0%	Struggling against market share losses in the pathology business, regulated fee cuts in the pathology industry, heightened competition for the acquisition of GP practices and higher funding costs, Primary Healthcare (PRY) earnings are under pressure. Since the acquisition of the Symbion business synergies have been delivered, but market share leakage, especially to SHL through the integration, has been meaningful and is continuing. Given the volume losses in pathology, PRY have been reluctant to introduce co-pays to recoup the fees cuts. Instead they are risking the patronage at medical centre business via introduction of an "out of pocket" in what has been built up as a bulk billing business.
Decreased	Platinum Australia	0.5%	0.0%	Platinum Australia has had a disappointing ramp up in production at the Smokey Hills platinum project. As a result the cash flow from the project has fallen short of our expectations. The company has also been forced to raise equity in order to fund its continuing operations and repay expensive debt. We considered the stock to be fully priced and with our confidence in management reduced somewhat, the stock was sold out of the portfolio.
Decreased	Energy Resources Aus	1.5%	0.0%	Energy Resources of Australia was sold out of the portfolio during quarter. The stock had performed strongly as a result of improved pricing in its uranium contracts, exploration success, and development of mine life extension options. As these events occurred and the stock price appreciated along with them, the stock neared our target price. We considered further upside in the stock to be limited and sold out of the position in order to invest in other energy related stocks.

## Stock in Focus

### Henderson Group PLC (HGG) \$2.38, XJO 4,652

Henderson Group is an independent global funds management firm, with core competencies in equities, fixed interest, property and private equity. At the end of June Funds under Management totalled \$53bn. Based in the UK, they offer a diverse range of investment products and have a credible performance track record.

The strategy is to continue organic growth through expanding distribution in Continental Europe, Asia and the US (supplemented by selective acquisitions), and reweighting the portfolio towards higher value added products.

Through the market downturn, the management team have demonstrated an exceptional cost discipline. Costs have declined by over 30% in the last two years. Since demerging from AMP, Henderson staff have been encouraged to take up, and incentivised with, HGG shares, to engender a profit share culture and structure. Staff now own 15% of shares on issue. This has stood the company in good stead as the transparent profit based structure has allowed significant flex in the cost base as management fees have fallen in line with market declines.

In Jan 2009, Henderson announced the acquisition of New Star funds management, which is expected to be highly accretive. To date the integration is ahead of schedule, and synergies are higher than deal assumptions. Opportunistic pricing was available due to the market demise at the time and the debt burden within New Star. The strategic merit of the deal brings together the market position and marketing success of New Star in the high margin UK retail segment, with the strong performance track record of Henderson. Co-branding is currently being rolled out and the listing of Henderson product on new platforms has begun. The target is to be in the top 5 in the UK retail space by the end of 2010.

The 1H09 result is expected to be the bottom of the earnings cycle, with NPAT down over 60% compared to the peak 1H07 profit. Markets are likely to have bottomed in March 09 and inflows are starting to return. Management believe they can sustain a lower cost/income ratio, therefore the business should be highly leveraged to higher market levels. Assuming more normal market returns earnings growth including the accretion from New Star should be in the order of 40-50% p.a. over the next 2 years. Trading at 13.5x FY10 earnings HGG is rated our top funds management choice.

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