



Ironbark Karara Australian Share Fund

Monthly Investment Report

July 2010

The Fund returned 4.81% (net of fees) for the month, outperforming the benchmark by 0.33% (net of fees)

Market Review

News flow around several thematic fears declined in July allowing the market to recover

The news flow around the several thematic fears in the market – sovereign debt, a hard landing in China, a US double dip recession - abated in July and allowed the market some opportunity to recover. The benchmark S&P/ASX300 Accumulation Index rose 4.48%, recovering a third of its June quarter decline.

The Euroland debt crisis in particular moderated as stress testing of the European bank sector showed manageable exposures to sovereign credit risk. European credit spreads rallied and the economic data from the region was surprisingly strong with Germany in particular benefiting from the recovery in global IP and a weak currency.

US economic releases confirmed the trend of some slowing in the rate of growth, however the majority of US corporate profit results exceeded expectations. Encouragingly the drivers of earnings growth have broadened with evidence of now solid revenue growth as well as continuing productivity improvements.

Commodities had a strong month with the CRB Index rising 6% and the metals index rising 11%. Of note was strength in grain prices with wheat up 43% and soy and corn prices making double digit advances.

Declining global risk aversion and recovering commodity prices took pressure off the Australian dollar allowing it to rebound 6 cents and close above US\$0.90 once again. The unwinding of the Resources Super Profit Tax, although largely expected by late June, also helped foreign investor perceptions.

Cyclical sectors led the rebound. Discretionary retailers, banks, chemicals, miners and mining services performed well. However telco's, REITs and consumer staples gave back some of their recent relative gains.

The trend of profit downgrades continued to materialise while upgrades were largely absent. QBE revised guidance lower due to the sharp decline in global interest rates into the financial year end. Macquarie, Nufarm and Boral all confirmed soft demand conditions with Boral also undertaking a large capital raising to fund expansion.

Performance as at 31 July 2010

Fund size:
\$38.0 million

Exit Price:
\$1.1298

Inception date:
30 June 2005

	Net Fund Return (%)	Benchmark (%)	Excess Return (%)
1 month	4.81	4.48	0.33
3 months	-7.95	-5.95	-2.00
6 months	-1.10	0.16	-1.26
Financial year to date	4.81	4.48	0.33
1 year	7.75	10.42	-2.67
2 years (pa)	-1.56	-1.18	-0.38
3 years (pa)	-8.30	-6.04	-2.26
4 years (pa)	-0.04	1.84	-1.88
5 years (pa)	4.61	5.07	-0.46
Since commencement of Fund* (pa)	4.74	5.55	-0.81

Net performance figures are calculated using exit prices, net of fees and reflect the annual reinvestment of distribution.

Retail investors should refer to net returns. If investing through an IDPS Provider, the total after fees performance return of your investment in the Fund may be different from the information in this report..

The S&P/ASX 300 Accumulation Index was adopted as the Fund's performance benchmark on 1 July 2010. Benchmark calculations prior to this date are based on the S&P/ASX All Ordinaries Index.

*This figure represents the annualised performance of the Fund since inception



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Market Review (continued)

A takeover offer for Intoll (formerly part of Macquarie Infrastructure) by a Canadian pension plan again highlighted the longer time horizons and lower cost of capital of investors in unlisted assets. Meanwhile the growing backlog of companies waiting to list remained sidelined. The IPO of developer Valemus was cancelled due to lack of interest.

Performance Review & Portfolio Activity

The Fund outperformed by 33 basis points in July.

The position in Downer EDI recovered 38% over the month. The rebound reflected the end of the wave of panic selling that followed the Waratah contract write down, and some small positive developments related to the contract. Nevertheless several hurdles need to be cleared before the contract issues are resolved, and the time and complexity of this puts it beyond the time horizon for most investors who see it as 'too hard'. Following further review and meetings with management we added further to the position.

Stock selection within the chemicals sector added value. Orica returned 10% inclusive of the proceeds of Dulux which de-merged (and which we sold) while the position in Incitec rallied 19%. The portfolio has no exposure to Nufarm which collapsed 29% following a fifth consecutive profit warning.

Preferred energy names Oil Search and Santos performed well, while Woodside (not held) struggled as the market focuses on where the gas it requires for the Pluto 2 project will be sourced. Santos was buoyed by news that it has entered discussions with Shell to merge LNG interests in Gladstone. We think the commercial logic behind this makes consolidation in some form inevitable.

The portfolio lost ground in the financials sector. Holdings in QBE and Macquarie Bank fell as each downgraded profits. We see both as undervalued in 'normal' operating conditions. In addition the preferred banks NAB and ANZ underperformed CBA and particularly Westpac - which rebounded 13% after several months of underperformance against the sector.

Underweights to REITs and the telecommunications sector added value while underweights to Woolworths (-5%) and Wesfarmers (8%) largely counteracted each other. The share prices divergence of the big retailers followed June quarter sales results which confirmed Coles is gaining volume growth at Woolworths' expense. While this is good for Wesfarmers (which owns Coles) we expect it has come at some cost to industry margins and will be short of the trajectory of improvement required to justify its share price.

In other activity the Fund substantially reduced its holding in Computershare, took some profits in Ansell and built on the position in Harvey Norman.

Key Contributors & Detractors

Top 5 Contributors	Active Position	Top 5 Detractors	Active Position
Downer EDI Ltd	Overweight	QBE Insurance	Overweight
Newcrest Mining Ltd	Underweight	NewsCorp Ltd	Overweight
Incitec Pivot Ltd	Overweight	Westpac Banking Corp	Underweight
National Australia Bank	Overweight	Commonwealth Bank	Underweight
Woolworths Ltd	Underweight	Brambles Ltd	Overweight



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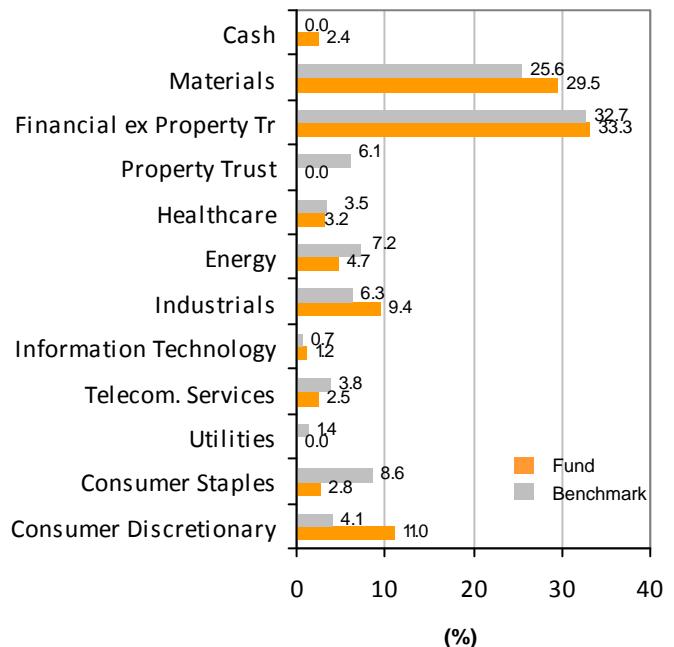
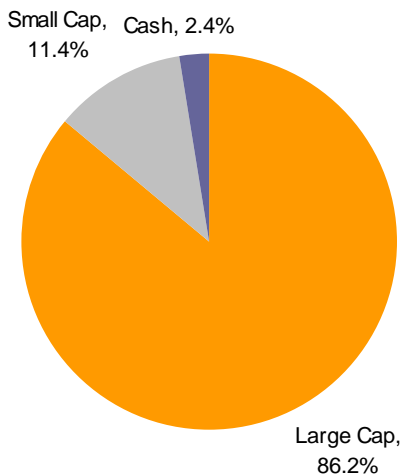
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Top 5 Holdings

Security Name	Sector	% of Fund
BHP Billiton Ltd	Materials	12.1
National Australia Bank Ltd	Financials	8.9
Australia & New Zealand Banking Group Ltd	Financials	8.1
Rio Tinto Ltd	Materials	5.6
Westpac Banking Corp Ltd	Financials	4.3

Asset Allocation as at 31 July 2010



Market Outlook

Four months ago investors were confidently looking forward to a recovery growing in strength. The speed of the U-turn in consensus has been remarkable and most now seem resigned to economies trapped indefinitely in an over-leveraged funk.

It is clear that we have now passed the point of maximum inventory rebuilding and so the rate of the economic expansion will start to moderate from high levels. This is a challenging time of the cycle, as overly optimistic earnings forecasts are trimmed and some investors sell risky assets. This process could take another quarter or two to play out. This may continue to create impatience and markets seldom correct by going sideways.

Looking past this 'changing of the gears', we see the forces of recovery remaining strong. While the focus is on public sector finances, the private sector position is improving quickly. Global growth is slowing yet remains at around 4% with major emerging economies such as China, Brazil and Turkey expanding at two to three times this pace. There has been a significant reduction in global interest rates, and for the troubled Europeans, this has been accompanied by a significant weakening in the Euro. The long journey to improving Europe's competitive position has begun and the Chinese currency adjustment will play a role in reducing their current account surplus and encouraging local consumption.



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Market Outlook (continued)

We expect that bond investors will continue to keep the pressure on policy makers to reform in Europe. Barring emergence of signs of contagion, equity markets are expected to be less sensitive to these developments. We also continue to closely watch the slowdown in China as there are concerns that some constraints on longer term growth are emerging.

Consistent with stronger global growth, soft commodity prices have been steadily strengthening in recent months. It is not just grain prices which have benefited from adverse weather in Russia. Pulp, latex, pork, cattle, cocoa and coffee have all recently hit multi year highs. Oil markets are also pricing future tightness. These price moves are not consistent with moribund global growth. If this trend continues it will tend to create a range of upstream winners (producers and input providers) and downstream losers (manufacturers, consumers). This is potentially good news for Australia (and New Zealand) though, as always, the second order consequences can be as significant for the portfolio returns as the obvious agricultural plays.

Market levels now imply significant downgrades to FY11 earnings. Measures of risk aversion are at elevated levels. While earnings estimates potentially have a little further to fall, there is scope for the market to rally as the macro outlook becomes less uncertain. In the meantime investors can take comfort from very strong balance sheets, attractive dividend yields and the reduced prospect of further interest rate rises. We believe the market offers value and good opportunities exist for disciplined stock selection.

Important information

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