Ironbark Karara Australian Share Fund

Monthly Investment Report

May 2010

The Fund returned -7.89% gross (-7.95% net) for the month, underperforming the benchmark by 0.32% gross (0.38% net)

Market Review

An increase in global volatility and decrease in risk appetite impacted the market in May

The European debt crisis hit markets hard in May. The S&P/ASX All Ordinaries Accumulation Index fell 7.57%, in line with the declines across US, Asian and European equity markets. Volatility rose sharply as investors moved to shed risk. The benchmark closed 14% below its mid April high.

The Government's announcement of the Resource Super Profits Tax (RSPT), Korean tensions and rising concerns about the nature of the slowdown in China also encouraged sellers. Meanwhile a sixth rise in the RBA's cash rate and some patchy local economic data saw the market change its interest rate view, pricing out any expectation of further increases this year. All this was too much for the Australian dollar which fell 8.5%.

The massive €750 billion fund established by the ECB and the IMF in response to the Greek crisis should relieve short term liquidity concerns. By moving quickly (by their standards) the Europeans have demonstrated the political will to support the EU, and their financial position in aggregate is stronger than either the US or Japan. The situation in other EU countries is less pressing and with the funding in place the hope is that the market crisis will force real reform. Critically, evidence of any contagion remains limited.

The Government's RSPT announcement triggered an immediate re-appraisal of the risk of investing in Australia. Foreign investors have been unsettled by both the potential impact and the lack of industry consultation. The potential damage it could do to investment in the mining industry is such that we expect political support for it in its current form will fade. However the genie is out of the bottle, foreign capital will want to see a period of policy stability before returning.

Economic data out of Europe and the US, meanwhile, continued to show improvement. The Eurozone PMI (a leading indicator of activity) grew at its fastest rate since mid 2006. US employment increased by more than any time in the last four years. Retail sales in both regions rose while indicators of inflation remained low.

Earnings reports from three of the major banks were the most significant stock specific news in May. The results show the banks in strong financial shape with bad debt charges falling more quickly than anticipated. The outlook for core earnings growth was slightly more muted due to the rising cost of overseas funding. Market favourite Westpac, was most disappointing, reporting an unexpected decline in its margin.

Performance as at 31 May 2010

Fund size:
$42.63 million

Exit Price:
$1.1594

Inception date:
30 June 2005

	Net Fund Return (%)	Benchmark (%)
1 month	-7.95	-7.57
3 months	-3.50	-3.33
6 months	-3.37	-3.91
Financial year to date	15.27	16.82
1 year	17.57	21.41
2 years (pa)	-6.69	-8.19
3 years (pa)	-8.16	-7.21
4 years (pa)	-0.06	1.48
Since commencement of Fund* (pa)	4.91	5.37

Gross performance figures are calculated using exit prices, pre-fees and reflect the annual reinvestment of distribution.
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.
*This figure represents the annualised performance of the Fund since inception.

Ironbark ASSET MANAGEMENT

Ironbark Karara Australian Share Fund

Monthly Investment Report

May 2010

Performance Review & Portfolio Activity

The Fund returned -7.89% gross (-7.95% net) in May, underperforming the S&P/ASX 300 Accumulation Index by 0.32% gross (0.38% net).

In periods of macro uncertainty, defensive sectors invariably perform best and this was the case in May. Healthcare, consumer staples, and REITs all performed relatively well. Industrials and financials – particularly the banks – led declines.

At the sector level the Fund added value in the consumer discretionary and financials sectors.

Within financials this gain came from an underweight to the sector and the relatively strong performance of the overweight to ANZ (-5.7%), relative to Westpac (-13.3%) which the Fund is underweight. Within the discretionary sector, positions in Crown, Consolidated Media and Newscorp all performed relatively well.

Other good contributors came from positions in Ansell and Orica. A nil holding in Transurban also helped after the takeover bid from a Canadian pension fund was withdrawn and the company opted to raise capital instead.

Although the Fund is close to fully invested, cash holdings also provided a positive contribution.

Detracting value were nil holdings in REITs and underweight positions in consumer staples such as Woolworths and Fosters. We see the REITs as overpriced – as they face rising debt costs, have unattractive yields and have limited scope to build value through re-development. Similarly we see many of the consumer staples names as struggling to meet analyst medium term profit expectations and as such believe they are expensive.

The Fund added new positions in Brambles, Crown and James Hardie. These were funded through selling positions in Toll Holdings, AMP and Origin.

We see Brambles at an early stage of an operational turnaround. Its core business, CHEP, has considerable scale advantage over its competitors. Poor customer service and under-investment allowed this advantage to slip in recent years. However a new management team has implemented a sensible strategy to fix these issues. We would expect the business to regain traction over the next 18 months, assisted by economic recovery.

Crown's market rating remains unduly tarnished by some poor US investments several years ago. The company has since re-focused on improving its core domestic casinos in Melbourne and Perth. We are passing the peak of this investment spend and benefits will be progressively seen over the next two years. Crown interests in Macau are well positioned to profit from the growth in Chinese gaming spend.

James Hardie has managed its way through the US housing downturn without damaging operating margins or market position. It has large amounts of idle capacity and stands to significantly increase profits when US housing recovers from current extreme lows. While timing on this is uncertain we expect that attractive affordability, rising US employment and improving access to credit will allow construction to increase.

We took advantage of the market pullback to add to positions in Rio Tinto and National Australia Bank.

The Fund sold most of its holding in Sonic Healthcare early in the month after we re-evaluated the impact of the changing regulatory backdrop and the ability of the company to expand margins in such conditions. Later in the month the company announced a profit warning due to the impact of weak volumes and competitive pressures and its share price fell 25%.

Key Contributors & Detractors

Top 5 Contributors	Active Position
Commonwealth Bank of Australia	Underweight
Westpac Banking Corporation	Underweight
Orica Ltd	Overweight
M2 Telecommunications Group Ltd	Overweight
Incitec Pivot Ltd	Overweight

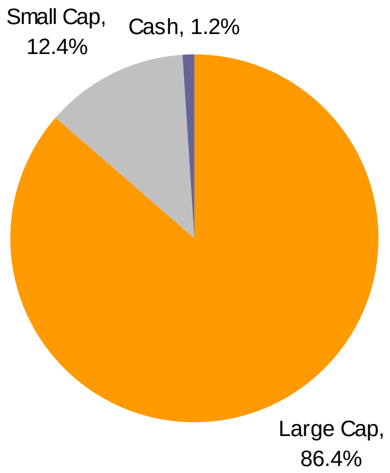
Top 5 Detractors	Active Position
Brambles Ltd	Overweight
Westfield Group Australia	Underweight
Wesfarmers Ltd	Underweight
Mineral Resources Ltd	Overweight
National Australia Bank Ltd	Overweight

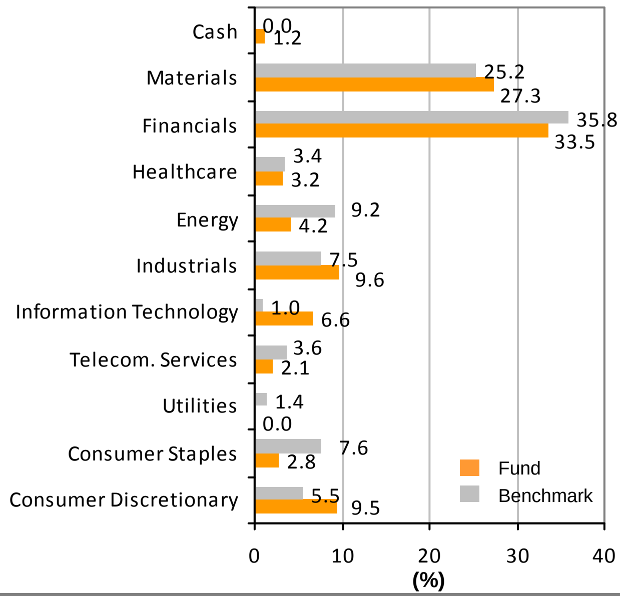
Ironbark Karara Australian Share Fund

Monthly Investment Report

May 2010

Asset Allocation as at 31 May 2010





Top 5 Holdings

Security Name	Sector	% of Fund
BHP Billiton Ltd	Materials	11.6
National Australia Bank Ltd	Financials	8.7
Australia & New Zealand Banking Group Ltd	Financials	7.6
Rio Tinto Ltd	Materials	5.3
QBE Insurance Group Ltd	Financials	4.1

Market Outlook

While we would expect that the recent EU crisis will have some impact on the global recovery, Europe is not a key driver of the global growth. We still expect GDP to grow by more than 4% this year.

We are positive on the long term growth in the Asian region, we recognise some slowing is required, and are closely monitoring events in China.

Domestically, corporate management remains cautious on the outlook despite improving underlying momentum. Memories of the GFC are fresh so conservatism is expected but we would anticipate the tone to improve as the year progresses and the recovery becomes more established.

Overall we see good value across the market and see current uncertainty as providing good opportunities for profitable stock selection.

Important information

Contact details

Individual investors:
1800 034 402

Advisers, Corporate and Institutional investors:
1800 678 519

www.ironbarkam.com