Ironbark Karara Australian Small Companies Fund

Monthly Investment Report
July 2010

The Fund returned 2.65% (net of fees) for the month, underperforming the benchmark by 2.56% (net of fees)

Market Review

The local market rebounded strongly in July with the S&P/ASX 300 Accumulation Index rising 4.48%. Small caps outperformed their large cap counterparts rising 5.21% for the month

The Australian equities market rebounded strongly in July with the S&P/ASX 300 Accumulation Index rising 4.48% for the month. Small cap stocks outperformed their large cap counterparts, with the S&P/ASX Small Ordinaries Accumulation Index rising 5.21%.

Major international stock indices also reported strong gains during July (Dow Jones 7.1%, S&P 500 6.9% FTSE100 6.9%) with concerns over European sovereign debt issues receding somewhat following release of the European regulator's bank "stress test" results which in turn eased pressure in funding markets. Market fears over the extent of China's economic slowdown also eased and sentiment received a boost from mostly better than expected US Q2 corporate earnings reports, with more than 70% of companies reporting by July-end exceeding expectations. Tempering investor enthusiasm however was generally weaker than expected US economic data with the US Fed revising down its GDP forecasts, while both manufacturing and services ISM surveys fell during July.

While the US economy struggles to attain a robust growth trajectory, a number of positive signs emerged from Europe including increased manufacturing capacity utilisation data, German business confidence hitting a three year high, and stronger than expected profit results reported by a number of companies including Deutsche Luftansa, French luxury good manufacturer LVMH Moet Hennessy Louis Vuitton and Deutsche Bank. While uncertainty still remains over the timing of a broad based European economic recovery, recent strength in European export markets and associated indications of the awakening of the Chinese consumer sector (China recently surpassed the US as the world's largest auto market), provide some cause for optimism.

Domestically, M&A activity continued to increase with competing bids lodged for Healthscope, UK marketing & communications firm Aegis Group PLC bidding for Mitchell Communications Group, the announcement of a nil premium merger between Graincorp and AWB, and iiNet's acquisition of AAPT's consumer business. Market turnover and corporate news was generally subdued ahead of the upcoming reporting season however current year earnings upgrades were released by Macarthur Coal, Super Cheap Auto and Adelaide Brighton, largely on the back of company specific factors.

Performance as at 31 July 2010

Fund size:
$37.9 million

Exit Price:
$2.0485

Inception date:
30 June 2005

	Net Fund Return (%)	Benchmark (%)	Excess return (%)
1 month	2.65	5.21	-2.56
3 months	-5.96	-7.00	1.04
6 months	4.74	-1.09	5.83
Financial year to date	2.65	5.21	-2.56
1 year	24.48	7.30	17.18
2 years (pa)	13.02	-5.98	19.00
3 years (pa)	-1.00	-12.42	11.42
4 years (pa)	13.66	-0.91	14.57
5 years (pa)	17.15	3.02	14.13
Since commencement of Fund* (pa)	17.60	3.72	13.88

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

Market Review (continued)

Small Resource stocks (5.8%) outperformed the Small Industrials (4.9%) for the month reflecting an increase in overall investor risk appetite, the comparatively more favourable Mineral Resource Rent Tax arrangements (only applicable to coal and iron ore) and increases in a number of commodity prices (Oil 4.4%, Copper 12.2%, Aluminium 10%, Zinc 13%). Materials, Industrial and Energy were the strongest contributing sectors during July, while Telecommunication Services, Information Technology and Consumer Staples were weakest.

Performance Review & Portfolio Activity

The Fund returned 2.65% (net) during July. This constituted 2.56% of underperformance when compared with the benchmark S&P/ASX Small Ordinaries (Accumulation) Index return of 5.21% for the month.

At the stock level, positive contributions to Fund performance were Mitchell Communications Group (40%) following Aegis' $363 million takeover bid, and M2 Telecommunications (15%) which provided positive FY11 earnings guidance ahead of analyst forecasts. Other contributors to performance were underweight positions in Eldorado Gold (-15%), St Barbara (-14%) and Aquila Resources (-5%). The major detractors from Fund performance were an underweight position in Lynas Corp (39%) and overweight positions in Peet (-6%), TPG Telecom (-6%), Iress (-5%) and REA Group (-4%).

During the month the Fund added to positions in Bradken, SAI Global, Super Cheap Auto, Pan Aust and established a position in Austbrokers Holdings. These purchases were funded from existing cash balances and by selling down holdings including Peet, Fleetwood, Reject Shop and Monadelphous, while the Fund exited its holding in Carsales.

During July, SAI Global announced the US$170 million acquisition of Integrity Interactive, a leading US based supplier of compliance programs and ethics solutions to the corporate sector. The acquisition positions SAI as a leading global provider of compliance services across the US, Europe and Asia and provides significant scope for the cross-selling of product lines across a range of industries, many of which are facing increasing levels of government legislation and regulation as the world moves into a more heavily regulated environment. Key growth opportunities for SAI's expanded compliance business will be US Financial Services reform where the industry will soon have to contend with over 1,500 pages of new legislation in response to the fall-out of the GFC, and new anti-bribery and corruption legislation in the UK.

Austbrokers is a large general insurance broking business comprising 40 member firms that specialise in the SME segment of the general insurance market. Significant fragmentation still exists within the industry providing the company with further consolidation opportunities as business operators seek to implement medium term succession plans. The company has a high degree of earnings predictability and visibility given a significant portion of renewal business, while the company's low gearing and franking account balance provide scope for either a special dividend or other capital management initiatives.

Key Contributors & Detractors

Top 5 Contributors	Active Position
Mitchell Communication Grp	Overweight
M2 Telecommunications Grp	Overweight
Eldorado Gold Corp	Underweight
St Barbara Ltd	Underweight
Aquila Resources Ltd	Underweight

Top 5 Detractors	Active Position
Lynas Corp Ltd	Underweight
Peet Ltd	Overweight
REA Group Ltd	Overweight
IRESS Market Technology Ltd	Overweight
TPG Telecom Ltd	Overweight

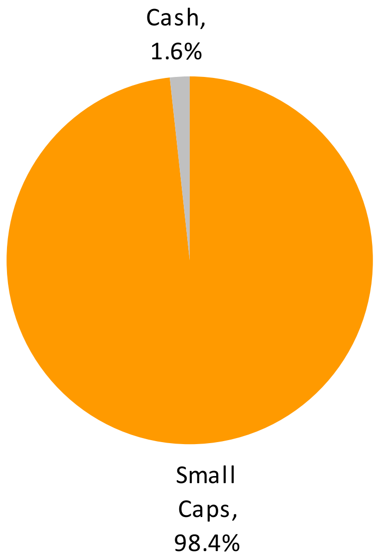
Ironbark Karara Australian Small Companies Fund

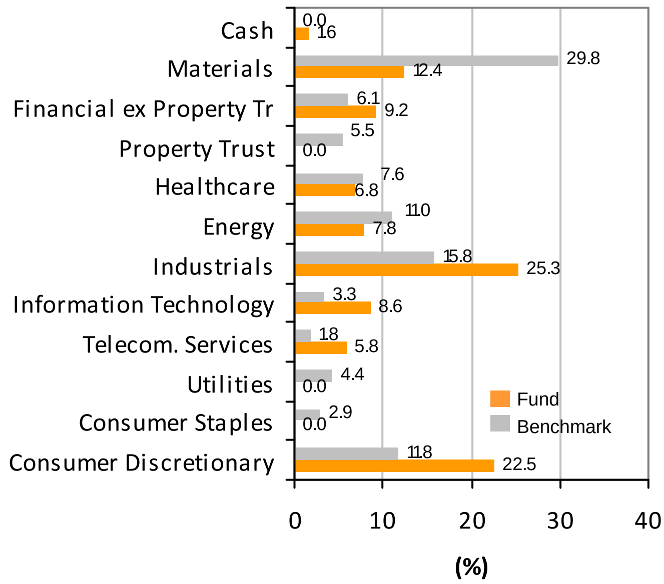
Monthly Investment Report
July 2010

Top 5 Holdings

Security Name	Sector	% of Fund
Mineral Resources Ltd	Materials	5.3
Ramsay Health Care Ltd	Healthcare	5.1
IRESS Market Technology Ltd	Information Technology	3.8
Retail Food Group Ltd	Consumer Staples	3.7
IOOF Holdings Ltd	Financials	3.5

Asset Allocation as at 31 July 2010





Market Outlook

July's market recovery showed the short-term fickleness of investor sentiment in switching between the "risk-on" and "risk-off" trade, primarily driven by the prevailing macro influences of the state of the US economy, a potential slow-down in China and sovereign debt concerns. On a positive note, recent weakness in the Euro has contributed to positive European export growth and a buoying in confidence, and in the absence of sovereign debt market contagion, a European recovery would appear underway. While concerns over Chinese growth are likely to linger, we believe the market has yet to fully recognise the impact of broader Asian growth on regional demand, most notably India, where annual GDP growth is two to three times that of what Australia may be expecting. Importantly India is not fiscally constrained, and with an estimated US$280 billion of foreign reserves, an increasing presence of Indian companies investing in Australian companies and projects may be expected.

While our exact positioning within the economic cycle has been clouded by the impact of stimulus programs, a still relatively low interest rate environment and attractive valuations based on near bottom of the cycle earnings, provide an attractive setting for investors in the Australian small companies sector – with the small cap market currently trading on a FY11 earnings multiple of 11x, compared with a long term average of 13x.

Ironbark
ASSET MANAGEMENT

Market Outlook (continued)

Strength in the domestic labour market and an improving outlook for business expenditure, especially resource related (much of which was delayed post GFC), should provide a further backstop for the economy and markets at current levels. Corporate balance sheets have been significantly strengthened and in numerous cases excess capital now exists. While we expect some downward revisions to some consensus earnings expectations for the next year during the upcoming reporting season, the current investment environment remains attractive for disciplined stock selection.

We continue to remain of the view that smaller companies should ultimately prove a major beneficiary of ongoing improvements in domestic and global macroeconomic conditions and provide attractive leverage to a cyclical earnings recovery.

Important information

Contact details

Individual investors:
1800 034 402

Advisers, Corporate and Institutional investors:
1800 678 519

www.ironbarkam.com