Ironbark Karara Australian Small Companies Fund

Monthly Investment Report
June 2010

The Fund returned -0.58% net for the month, outperforming the benchmark by 3.15% net

Market Review

For the month of June the S&P/ASX Small Ordinaries Accumulation Index fell 3.73%

Materials, Telecos, Property and IT sectors were the strongest contributors, while Energy, Consumer Staples and Consumer Discretionary weakest

Challenging conditions for Australian equity investors persisted into June with the S&P/ASX 300 Accumulation Index falling 2.65% for the month. Smaller capitalisation stocks underperformed their large counterparts, with the S&P/ASX Small Ordinaries Accumulation Index down 3.73%. As at 30 June, the S&P/ASX Small Ordinaries Accumulation Index closed 15% below the mid April 2010 high.

The Federal Government's Resource Super Profit Tax ('RSPT') continued to dominate the market's focus during June. In a remarkable series of events, broader community concerns over the potential financial impact of the RSPT and increasingly negative opinion polls, culminated in a change of Prime Minister in late June together with a renewed commitment of the Government to engage in meaningful dialogue with the mining industry regarding an acceptable solution.

On 2 July 2010, the RSPT was officially abandoned with the Government instead proposing a new Minerals Resource Rent Tax applicable to only the iron ore and coal industries, plus an extension of the existing Petroleum Resource Rent Tax regime to apply to onshore oil and gas projects as well as those developed offshore. While a number of key details are yet to be released, the mining industry's response has been generally positive although a number of resource stocks had already recovered lost ground during June in anticipation of a Government compromise, with the Small Resources sector ending the month down 1.4% compared to a fall of 5.0% for the Small Industrials sector.

The announcement of Telstra's heads of agreement with the Government to transfer its existing copper network and other infrastructure into the National Broadband Network saw renewed focus on the telecommunications sector with speculation increasing regarding potential M&A transactions in the small cap telco sector. Meanwhile the RBA left the cash rate on hold at 4.50% in early June, reflecting a neutral stance following six rate increases since late 2009. The AUD finished June 30 at USD 0.841 rebounding slightly on improved sentiment.

Confidence on global markets remained fragile with uncertainty surrounding the increasing strength of the US recovery following the release of mixed consumer and housing data, ongoing European sovereign debt concerns and the potential impact on European growth of proposed fiscal austerity measures. Commodity markets remained volatile with concerns over the slow-down being induced in China to curb certain over-heated sectors (e.g. property and bank lending) – notably, however, key Chinese PMI figures remain above 50 (indicating expansion) as the government targets sustainable GDP growth of 8-9% versus 11.9% recorded in the first quarter. Further, in an encouraging sign of a shifting focus towards domestically driven economic growth, the People's Bank of China announced in June that the Renminbi policy would shift from a USD peg to a target range against a basket of currencies.

Materials, Telecommunications, Property and IT sectors were the strongest contributing sectors during June, while Energy, Consumer Staples and Consumer Discretionary sectors were the weakest. The latter reflecting market concerns over the strength of the domestic retail sector in light of higher interest rates and the absence of government stimulus.

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Performance as at 30 June 2010

Fund size:
$38.26 million

Exit Price:
$1.9956

Inception date:
30 June 2005

	Net Fund Return (%)	Benchmark (%)
1 month	-0.58	-3.73
3 months	-7.63	-11.59
6 months	-3.58	-12.98
Financial year to date	30.46	11.18
1 year	30.46	11.18
2 years (pa)	10.10	-10.89
3 years (pa)	-1.10	-14.19
4 years (pa)	12.49	-2.27
Since commencement of Fund* (pa)	17.31	2.74

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 June be different from the information in this report.
*This figure represents the annualised performance of the Fund since inception.

Performance Review & Portfolio Activity

The Fund returned -0.58% net during June. This constituted 3.15% of outperformance versus the benchmark S&P/ASX Small Ordinaries Accumulation Index return of -3.73% for the month.

At the stock level, positive contributions to Fund performance were overweight positions in Mineral Resources (+16%) following a release of further information regarding the company's planned accelerated development of its Yilgarn iron ore project, Thorn Group (+11%) and Retail Food Group (+7%). Other contributors to the Fund's relative outperformance were underweight positions in iSoft Group (-70%) and Elders Ltd (-62%). The major detractors from Fund performance were an overweight position in CSG Limited (-9%) and underweight positions in Avoca Resources, (+33%), Perseus Mining (+21%) Kingsate Consolidated (+13%) and Riversdale Mining (+12%).

During the month the Fund topped-up positions in Austin Engineering and established positions in Super Cheap Auto and gold producer Silver Lake Resources. These purchases were funded from existing cash balances and by selling-down holdings including Carsales, New Hope Corporation, and Wotif.com, as well as exiting the fund's holding in Sedgman.

Supercheap Auto provides investors with exposure to an attractively priced and proven retail business model across 2 core brands, Supercheap Auto and BCF (Boating Camping Fishing) each of which we expect to grow at substantially faster rates than the markets within which they operate. Furthermore, the company's recent acquisition of Ray's Outdoors provides a strong complementary fit with the BCF format and scope to offer a larger category offering (including apparel and outdoor furniture) across two distinct brands with a total store network of more than 100 stores and opportunities for further significant store number increases across Australia and NZ.

Silverlake Resources is a profitable emerging mid-tier gold producer with an increasing production profile from a highly prospective recent aggregation at Mt Monger near Kalgoorlie. Recent drilling results also indicate substantial scope exists to expand resources at the company's Daisy Milano mine with a number of additional structures of similar grade discovered parallel and in close proximity to existing infrastructure thereby providing scope for future development to occur at an attractive cost.

Ironbark
ASSET MANAGEMENT

Ironbark Karara Australian Small Companies Fund

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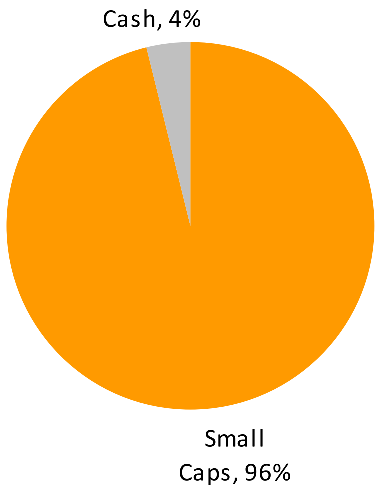
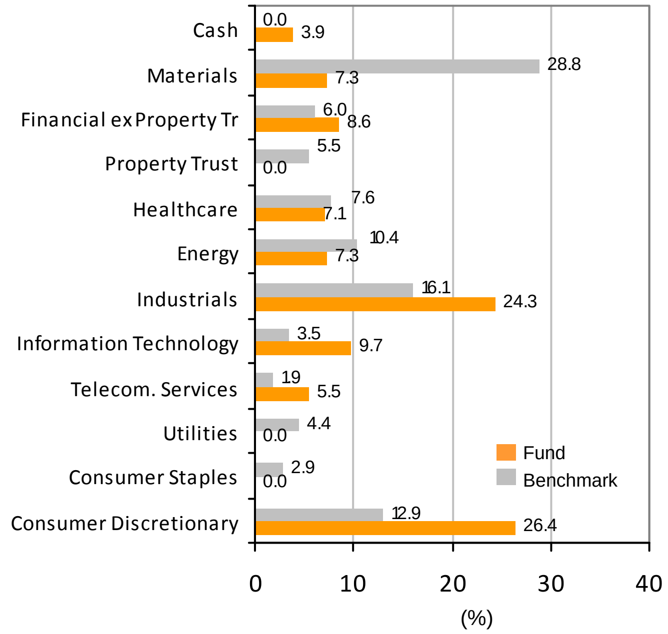
Asset Allocation as at 30 June 2010





Top 5 Holdings

Security Name	Sector	% of Fund
Mineral Resources Ltd	Materials	5.6
Ramsay Health Care Ltd	Healthcare	5.5
Reject Shop Ltd	Consumer Discretionary	5.3
Retail Food Group Ltd	Consumer Staples	4.1
IRESS Market Technology Ltd	Information Technology	4.0

Key Contributors & Detractors

Top 5 Contributors	Active Position
Mineral Resources Ltd	Overweight
Retail Food Group Ltd	Overweight
iSOFT Group Ltd	Underweight
Elders Ltd	Underweight
Thorn Group Ltd	Overweight

Top 5 Detractors	Active Position
Riversdale Mining Ltd	Underweight
Avoca Resources ltd	Underweight
Perseus Mining Ltd	Underweight
CSG Ltd	Overweight
Kingsgate Consolidated Ltd	Underweight

Ironbark ASSET MANAGEMENT

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Market Outlook

We remain broadly positive on the outlook for smaller companies following the market's 15% pull back from mid-April, despite ongoing negative external influences stemming from European debt concerns and potential for a weaker than expected US recovery. Domestically, the influence of higher interest rates, fiscal fade, RSPT uncertainty and currency volatility have further contributed to both consumer and business uncertainties.

However, we believe the market has de-rated stocks across the board and select high quality companies are now available at attractive prices for investors willing to understand the nuances and key drivers of each particular company's earnings and cash flow.

While we expect the upcoming reporting season to be characterised by some downward revision of overly optimistic consensus earnings expectations for FY11, the small capitalisation PE ratio of 12x is inexpensive compared with a long term average of 13x. We believe this provides an attractive investment environment particularly given the Fund's strategic bias towards investing in companies with below-market valuations and reasonably defensive earnings.

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

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