



Ironbark Karara Australian Small Companies Fund

Monthly Investment Report May 2010

The Fund returned **-7.76% gross (-7.85% net)** for the month, outperforming the benchmark by **0.42% gross (0.33% net)**

Market Review

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

The Australian market experienced a tough month in May with the broader S&P/ASX 300 Accumulation Index falling 7.54% for the month. Smaller capitalisation stocks underperformed their large counterparts, with the S&P/ASX Small Ordinaries Accumulation Index down 8.18%.

Macroeconomic issues dominated market performance during May as investors responded to an increase in global volatility and decrease in risk appetite in light of concerns over European sovereign debt issues, escalating tensions between North and South Korea and BP's leaking oil well off the Gulf of Mexico. The Small Resources sector responded particularly negatively to the Federal Government's release of the Henry tax review and Resource Super Profit Tax ("RSPT") with significant uncertainty emerging regarding the economics of various mining projects and the ability of some emerging companies to fund those projects. Foreign investors applied a heightened sovereign risk premium to the Australian equity market, not only in response to the potential impact of the RSPT, but also in light of the lack of industry consultation by the government ahead of announcing such significant new tax measures.

Materials, Industrials and Consumer Discretionary sectors were weakest during May, while relatively defensive sectors Healthcare and Telecommunication Services were strongest. Healthcare stocks also rose after a consortium of private equity vehicles bid for Healthscope.

Performance as at 31 May 2010

Fund size:
\$38.67 million

Exit Price:
\$2.0521

Inception date:
30 June 2005

	Net Fund Return (%)	Benchmark (%)
1 month	-7.85	-8.18
3 months	1.00	-1.88
6 months	1.50	-5.72
Financial year to date	31.23	15.49
1 year	33.42	19.01
2 years (pa)	5.85	-14.49
3 years (pa)	0.28	-13.08
4 years (pa)	13.74	-1.06
Since commencement of Fund* (pa)	17.78	3.58

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.

Performance Review & Portfolio Activity

The Fund returned **-7.76% gross (-7.85% net)** in May, outperforming the S&P/ASX Small Ordinaries Accumulation Index by **0.42% gross (0.33% net)**.

At the stock level, positive contributors to Fund performance were Thorn Group (+7%) following a 32% increase in underlying annual earnings driven by ongoing strength of the company's "Rent, Try, Buy" model, and Ramsay Health Care (+3%) which held steady due to the stock's relatively defensive qualities. Other contributors to the



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Performance Review & Portfolio Activity (continued)

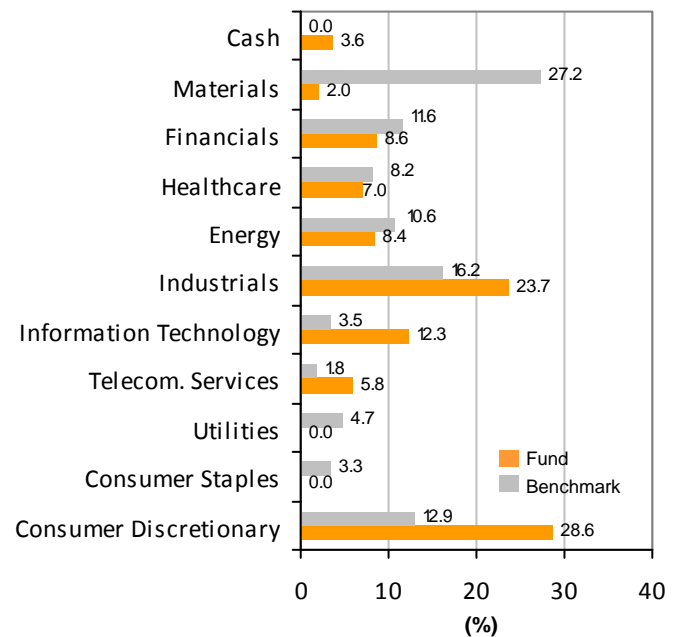
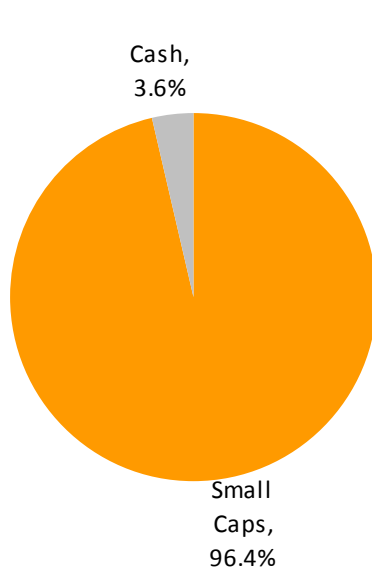
Fund's relative outperformance were an overweight position in IRESS (-1%) and nil positions in Virgin Blue (-45%) and Macarthur Coal (-23%). The major detractors from Fund performance were overweight positions in Mineral Resources (-16%) and Retail Food Group (-12%) and underweight positions in Eldorado Gold (+1%), Resmed (+6%) and Healthscope (+26%).

During the month the Fund topped-up positions in IOOF and Tower Australia and established a position in Bradken. These purchases were funded from existing cash balances and by selling down holdings including New Hope Corporation, Monadelphous and Adelaide Brighton, as well as exiting Clough, GWA, Healthscope and Macmahon Holdings.

Tower Australia offers small cap investors an attractively priced and "clean" exposure to the Australian life insurance sector, providing superannuation and risk management services including term life, income protection and trauma insurance. During the month the company announced a \$96 million rights issue to fund a significant medium business expansion program, including the development of new alliances with organisations capable of providing large scale distribution capacity for Tower's life insurance product suite eg. large industry superannuation funds such as Australian Super. While the current rate of Tower's business growth requires near term investment, we believe the market is not fully recognising the company's medium term earnings growth with the stock priced at less than 10x one year forward earnings.

Bradken provides a range of services to the mining, mineral processing and rail industries with core activities including the supply of mining consumables and other hard-wearing ground engagement equipment. During May the company further expanded its operations in North America with the acquisition of Canadian based Almac, a supplier of machined and fabricated products primarily to the Canadian oil sands market. We believe Bradken's off-shore expansion strategy is sound, lessening the company's exposure to the potential impact of the RSPT and, in the case of Almac, diversifying the company's commodity exposure towards oil. With over 40% of its earnings coming from consumables, Bradken's earnings stream is more defensive than a number of other mining service related companies.

Asset Allocation as at 31 May 2010





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Top 5 Holdings

Security Name	Sector	% of Fund
Ramsay Health Care Ltd	Healthcare	5.4
Reject Shop Ltd	Consumer Discretionary	5.2
Mineral Resources Ltd	Industrials	5.2
Retail Food Group Ltd	Consumer Discretionary	4.3
CSG Ltd	Information Technology	3.6

Key Contributors & Detractors

Top 5 Contributors	Active Position	Top 5 Detractors	Active Position
Ramsay Health Care Ltd	Overweight	Retail Food Group Ltd	Overweight
Virgin Blue Holdings Ltd	Underweight	Eldorado Gold Corp	Underweight
Macarthur Coal Ltd	Underweight	ResMed Inc	Underweight
Thorn Group Ltd	Overweight	Mineral Resources Ltd	Overweight
IRESS Market Technology Ltd	Overweight	Healthscope Ltd	Underweight

Market Outlook

With the exception of the recent turmoil in Europe and some Government tightening in China, economic news has on balance been positive for investors over the past several months. Recession has largely given way to expansion across the world, albeit that the expansion is extremely uneven by country. Australia remains leveraged to developing Asia, where the economies continue to grow more rapidly than was projected at the beginning of the year.

In this context we expect the cyclical backdrop for domestic small company equities to be supported by rising earnings, low interest rates and relatively attractive valuations, even though the sector has been penalised by a flight to safety in recent weeks. The small companies market is trading around 12x forward earnings, which is on the right side of fair value compared with a long term average closer to 13x. Smaller companies look even better value on a two year basis where the forward multiple drops to 10x.

Important information

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