Ironbark Karara Investment Funds

Quarterly Investment Report
June 2010

For the quarter ended 30 June 2010, the Ironbark Karara Australian Share Fund underperformed its benchmark, while the Ironbark Karara Australian Small Companies Fund outperformed its benchmark

Market Review

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Over the June quarter investors faced a barrage of negative developments which saw investor sentiment overwhelmed and equity markets decline sharply to record their worst performance since the midst of the global financial crisis in 2008. The Australian share market was not spared and declined by 12%, in line with major overseas markets.

The quarter began on a positive footing with investor sentiment buoyed by generally strong corporate earnings and clear signs the US economic recovery was on track.

However this was soon undermined with the ghost of the global financial crisis casting a shadow over markets and shattering investor sentiment. European sovereign debt was the culprit this time with debt investors recoiling from the debt of a number of the 'Mediterranean' countries that had outsized financial deficits and excessive debt; this sent the yield premiums on the debt of these countries surging. Countries in the firing line were Greece, Spain, and Portugal and Italy.

The risk of contagion into the broader European banking system was evident with significant ramifications for the broader financial system and developed world economic growth. The seriousness of the situation was reflected in the unusual swiftness which the European Union in partnership with the IMF agreed to a large scale stabilisation package to ensure ongoing funding for the challenged economies. Access to funding was conditional on these countries enacting brutal fiscal austerity measures to reign in deficits and regain financial credibility.

While these initiatives have gone someway to stabilising markets, the 'truce' is fragile as the solvency of the troubled countries, the strength of the European banking system, fears of slumping growth on the back of the austerity measures and tighter credit conditions remain front of mind.

The issues didn't stop there; investors had to further contend with questions around the durability of the US recovery as employment and housing data disappointed. In addition, the previously unassailable Chinese economy was also weighing on sentiment with fears that policy actions to slow the booming property sector would lead to a hard economic landing.

Finally, issues such as the Gulf of Mexico oil spill, the US financial reform bill, and domestically, the unexpected Resource Super Profits Tax (RSPT) proposal capped off a difficult quarter for investors.

In a long awaited move China announced it would allow more flexibility of its currency and returned to a floating basket of currencies to peg its exchange rate. While only a gradual appreciation is expected against the USD, it's a positive acknowledgement by the Chinese of the need to reform their domestic economy and play a role in rebalancing global growth. The move also defrays the risk of a damaging trade battle with the US.

It was no surprise that investor risk aversion spiked higher in the face of the developments outlined above, just as it was predictable that risk assets such as equity and commodity markets (with the exception of gold which gained 12%), and the AUD have declined in response.

In contrast, defensive assets were well sought with bond markets rallying (with the exception of the troubled European economies), the 'safe haven' USD strengthened, as did defensive sectors of the equity market. Of particular note was the decline in the yield on the bell-weather US 10 year bonds which saw yields fall to under 3%.

Market Review (continued)

In terms of the Australian share market, the Resource Sector (-11%) performed broadly in line with the market despite falling commodity prices, concerns over global growth, and the proposed RSPT. Banks underperformed the market in response to a lacklustre results period that showed subdued underlying earnings growth and margin pressure from funding costs on the back of the European sovereign debt crisis.

In the lead up to the forthcoming corporate reporting season, a number of companies provided trading updates. Apart from an upgrade by Boart Longyear, companies including Macquarie Group, Insurance Australia Group, Primary Healthcare, and Sonic Healthcare softened expectations. In broad terms the corporate profit environment is a little softer than our expectations reflecting the impact of fading fiscal stimulus and higher interest rates on the domestic consumer and a patchy recovery globally.

Stock specific developments of note included Telstra entering a preliminary agreement with the National Broadband Company, the successful bid by Newcrest for Lihir Gold, and Fosters Group announcing the decision to pursue a demerger of its wine business.

Performance as at 30 June 2010

Ironbark Karara Australian Share Fund

Fund size:
$38.44 million

Exit Price:
$1.0780

Inception date:
30 June 2005

	Net Fund Return (%)	Benchmark^ (%)	Variance (%)
1 month	-4.58	-2.60	-1.98
3 months	-13.81	-11.04	-2.77
6 months	-12.11	-9.74	-2.37
Financial year to date	9.99	13.78	-3.79
1 year	9.99	13.78	-3.79
2 years (pa)	-6.22	-5.88	-0.34
3 years (pa)	-9.71	-8.00	-1.71
4 years (pa)	-1.95	0.35	-2.30
Since commencement of Fund* (pa)	3.85	4.72	-0.87

Ironbark Karara Australian Small Companies Fund

Fund size:
$38.26 million

Exit Price:
$1.9956

Inception date:
30 June 2005

	Net Fund Return (%)	Benchmark^^ (%)	Variance (%)
1 month	-0.58	-3.73	3.15
3 months	-7.63	-11.59	3.96
6 months	-3.58	-12.98	9.40
Financial year to date	30.46	11.18	19.28
1 year	30.46	11.18	19.28
2 years (pa)	10.10	-10.89	20.99
3 years (pa)	-1.10	-14.19	13.09
4 years (pa)	12.49	-2.27	14.76
Since commencement of Fund* (pa)	17.31	2.74	14.57

Net performance figures are calculated using exit prices, net of fees and reflect the annual reinvestment of distribution.
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.
^S&P/ASX All Ordinaries Accumulation Index
^^S&P/ASX Small Ordinaries Accumulation Index

Ironbark ASSET MANAGEMENT

Portfolio Performance & Portfolio Activity

Ironbark Karara Australian Share Fund

The broad investment strategy of the Fund has been to be well weighted to those companies leveraged to an ongoing economic expansion and market recovery, as opposed to those stocks with very defensive characteristics. This strategy has been at odds with the risk avoiding behaviour of investors over recent months which saw the Fund underperform over the period, delivering –13.8% net, versus the S&P/ASX All Ordinaries Accumulation Index return of -11.0%.

There were a number of factors that led to the Fund's underperformance over the quarter.

By far the largest factor was stock specific resulting from the Fund's overweight position in Downer EDI (-52%), this holding accounted for over two thirds of the Fund's underperformance. Downer had been underperforming due to concerns over the financing of a subsidiary responsible for its $1.9bn NSW Waratah passenger train project. However, over the quarter the stock came under significant further pressure following an announcement that the Waratah project would be loss making and the Group will book a $190m pre-tax provision against the project.

Recent developments at Downer have clearly undermined investor confidence in the company and its management. However, following an extensive review of developments and discussions with management, we believe the risks are lower and the intrinsic value of the company is significantly higher than implied by the current share price.

In addition to Downer, there were secondary factors detracting from performance. With risk aversion rising it would have clearly been advantageous for the Fund to have been more defensively orientated than it was. This was a minor issue however, as the real impact of being underweight some of the defensive stocks was in fact accentuated by a number of unexpected corporate developments.

The defensive qualities of gold came to the fore to the benefit of Newcrest (+7%) and Lihir (+42%), both stocks not held by the portfolio. However, the performance of both stocks was further boosted by the successful takeover of Lihir by Newcrest.

Telstra (+9%), an underweight position, outperformed not only due to its defensive characteristics but further benefited from its agreement with the National Broadband Company, and at a price higher than expected. In a similar vein, Fosters (+7%), another stock not held, benefited from its decision to de-merge its wine division.

At the other extreme was Brambles (-26%), a cyclical stock held by the portfolio and which underperformed as cyclical concerns were compounded by the loss of a major US customer. We expect new management to succeed in re-engineering the business and the current share price offers attractive value.

The two other stocks of note that detracted from performance were the overweight position in Macquarie Group (-20%) which underperformed as earnings expectations were wound back somewhat on weaker market conditions, and a zero holding in Westfield Group (+1%) which outperformed largely on the back of its perceived defensive characteristics.

A number of portfolio holdings contributed strongly to performance including Ansell (+8%), Crown (-2.9%), Amcor (flat), and Consolidated Media (+1%). The factors supporting these stocks were generally solid operating performances as well as defensive characteristics.

The portfolio's underweight exposure to the underperforming banks Westpac (-22%) and Commonwealth Bank (-14%) also added value.

Ironbark Karara Australian Share Fund (continued)

In terms of activity, the Fund was significantly restructured in May following Karara Capital taking over the management of the portfolio. Excluding this transition activity, one new position was added to the Fund which was Harvey Norman, while Sonic Healthcare was the only position exited over the period.

We have been cautious on discretionary retailing for some time and following underperformance of the stocks in this sector along with our view of reasonable consumer spending over the medium term we have acquired some exposure to the sector through the purchase of Harvey Norman. The company has a strong retail franchise and can be purchased at an attractive valuation.

Over the period the Fund took advantage of market weakness to increase positions in a range of companies including Brambles, CSL, Downer, Amcor, National Australia Bank and QBE.

Sonic Healthcare was sold after we re-evaluated the impact of the changing regulatory backdrop and the ability of the company to expand margins. Subsequent to this, the company announced a profit warning due to the impact of weak volumes and competitive pressures and its share price fell materially.

In addition the sale of Sonic, purchases were funded by reducing exposure to a number of stocks including James Hardie Industries, ANZ Bank, and Computershare. The position in Rio Tinto was reduced early in the quarter and was rebuilt later in the quarter following share price weakness.

Ironbark Karara Australian Small Companies Fund

The Fund returned -7.63% (net) for the June quarter. This constituted 3.96% of outperformance when compared with the benchmark S&P/ASX Small Ordinaries Accumulation Index return of -11.59% for the quarter.

At a stock level, positive contributors to Fund performance were overweight positions in Mineral Resources (+9%), Iress Market Technology (+9%), Ramsay Healthcare (+1%) and Retail Food Group (+2%) and an underweight position in Virgin Blue (-58%). The major detractors from Fund performance were an overweight position in Wotif.com (-26%) and underweight positions in Eldorado Gold (+60%), Riversdale Mining (+17%), Healthscope (+17%) and St Barbara (+37%).

During the quarter, the Fund added to positions in Austin Engineering, IOOF and Tower Australia and established positions in Bradken, 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, Monadelphous, Adelaide Brighton and Wotif.com, as well as exiting the Fund's holding in Clough, GWA, Healthscope, Macmahon Holdings and Sedgman.

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, and in the case of the Almac transaction has also diversified the company's commodity exposure towards oil. With over 40% of its earning coming from consumables, Bradken's earnings stream is more defensive than a number of other mining service related companies.

Ironbark ASSET MANAGEMENT

Ironbark Karara Australian Small Companies Fund (continued)

Super Cheap Auto provides investors with exposure to an attractively priced and proven retail business model across 2 core brands, Super Cheap 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 with further opportunities for significant store 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.

Key Contributors & Detractors

Ironbark Karara Australian Share Fund

Top 5 Contributors	Active Position
Commonwealth Bank of Aust.	Underweight
Westpac Banking Corp	Underweight
Ansell Ltd	Overweight
Amcor Ltd	Overweight
AMP Ltd	Underweight

Top 5 Detractors	Active Position
Downer EDI Ltd	Overweight
Brambles Ltd	Overweight
Newcrest Mining Ltd	Underweight
Macquarie Group Ltd	Overweight
Wesfarmers	Underweight

Ironbark Karara Australian Small Companies Fund

Top 5 Contributors	Active Position
Mineral Resources Ltd	Overweight
IRESS Market Technology Ltd	Overweight
Virgin Blue Holdings Ltd	Underweight
Ramsay Health Care Ltd	Overweight
Retail Food Group Ltd	Overweight

Top 5 Detractors	Active Position
Eldorado Gold Corp	Underweight
Wotif.com Holdings Ltd	Overweight
Riversdale Mining Ltd	Underweight
Healthscope Ltd	Underweight
St. Barbara Ltd	Underweight

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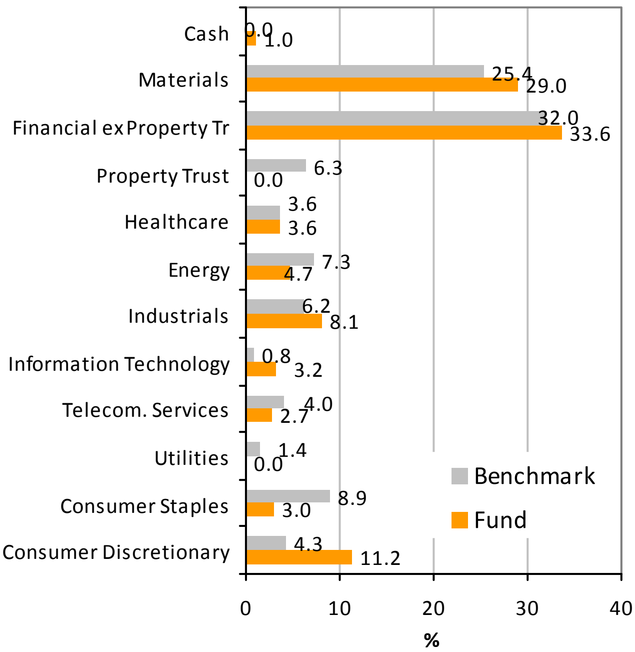
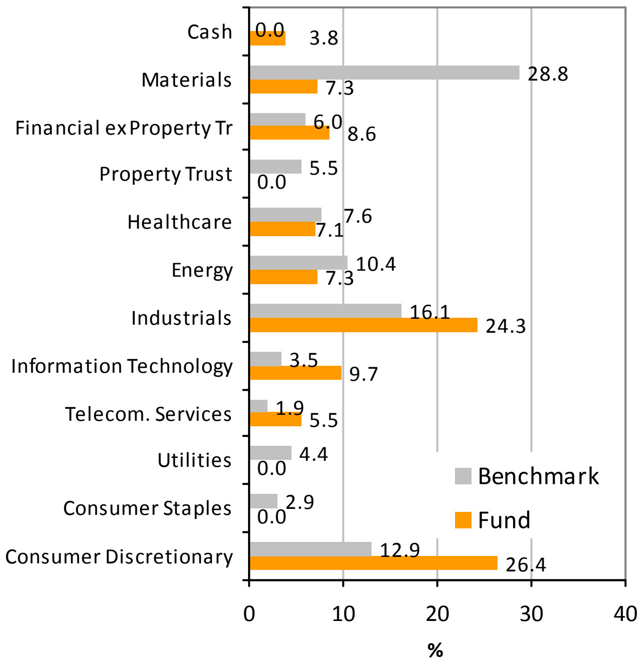
Asset Allocation as at 30 June 2010

Ironbark Karara Australian Share Fund



Ironbark Karara Australian Small Companies Fund



Top 5 Holdings as at 30 June 2010

Ironbark Karara Australian Share Fund

Security Name	Sector	% of Fund
BHP Billiton Ltd	Materials	12.0
National Australia Bank Ltd	Financials	8.7
Australia & New Zealand Banking Group Ltd	Financials	7.8
RIO Tinto Ltd	Materials	5.6
QBE Insurance Group Ltd	Financials	4.3

Ironbark Karara Australian Small Companies Fund

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

Ironbark
ASSET MANAGEMENT

Ironbark Karara Investment Funds

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Market Outlook

Investors value certainty about the economic and financial outlook; however this has been lacking over the past couple of months with investors unnerved by the turmoil in the euro area and concerns about global growth faltering. As a result risk aversion has spiked and equity markets have weakened.

We believe the market is going through a corrective phase and is not entering a new bear market phase. This is predicated on our view that the global economic recovery will be sustained at a strong enough pace to support corporate earnings.

Global economic growth may experience a soft patch in the second half of 2010, driven by the US economy moderating as the boost from fiscal stimulus and restocking fades, China slowing to a more sustainable rate due to policy headwinds, and euro land slowing due to the effects of tighter fiscal policy and financial stress.

However, we believe modest growth is in prospect, not a double dip recession; monetary policy generally remains extremely supportive, the easing in financial conditions in euro land (currency and interest rates) provides an important positive offset to fiscal constraint, and the developing economies are an important contributor to global growth and that these economies remain strong.

Through a strong terms of trade and increased export volumes, the Australian economy remains well placed to benefit from the ongoing growth in the developing economies.

Price behaviour in markets is suggesting weaker global economic conditions than we think are likely. As investors become more certain about the nature of the slowdown we think current elevated risk aversion should normalise which would see the equity market move higher.

While it has paid to hold more defensive stocks over recent months as consensus expectations for global growth have adjusted downward, considering the prospects for a normalisation of risk aversion and also the unambiguously high prices that defensive exposures now command, we believe both the outlook and valuations favour the outperformance of cyclical over defensive companies.

The portfolio is expected to benefit from a stabilisation in risk aversion and the realisation of a better global environment than current pricing suggests and we continue to find good opportunities for disciplined stock selection.

Important information

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