



Ironbark Karara Australian Share Fund

Monthly Investment Report

April 2012

The Fund returned 0.93% (net of fees) for the month, underperforming the benchmark by 0.37%

Market Review

The Australian equity market recorded a fourth consecutive positive monthly return in April. The benchmark S&P/ASX 300 Accumulation Index closed the month with a gain of 1.3%, and 10.0% higher than at the beginning of the year.

Globally, equity markets generally closed lower over the month. The largest falls were seen in Europe, with the Spanish (-13.0%), Italian (-9.2%), French (-6.2%), and Dutch (-5.3%) markets particularly hard hit.

Concern regarding the outlook for the Spanish economy intensified over the month. Data released in April showed the economy contracted for a second successive quarter. Standard and Poor's reduced its assessment of the creditworthiness of Spanish government debt citing over the month noting not only the country's shrinking economy but also the significant risk that the government might be forced to bail out Spain's ailing banking sector.

April was also marked by a growing political backlash in Europe against austerity measures introduced by governments across the region. In particular, the first round of voting in the French presidential election saw unexpectedly strong support for left and right wing anti-austerity candidates and in the Netherlands the coalition government collapsed after a populist element of the government withdrew its support over proposed budget cuts.

In the US, while companies reported first quarter earnings that exceeded expectations, economic data releases were softer than expected. The US market (-0.7%) closed the month modestly lower as expectations were recalibrated.

In China, data flow was mixed. While the manufacturing sector remained weak, new loans by Chinese banks surged in March. The Chinese market (5.9%) responded positively to the second data point which was taken as a sign of government confidence that it had inflation under control and could afford to allow economic activity to reaccelerate.

Quarterly inflation data for Australia released in April showed domestic inflation at one of its lowest points for the past decade. A significant factor in the result was dramatically lower fruit and vegetables prices in the first quarter of 2012 in comparison to a year earlier. The weak inflation reading heightened expectations of an

Performance as at 30 April 2012

	Net Fund Return (%)	Benchmark [^] (%)	Excess Return (%)
Fund size: \$29.6 million			
	1 month	1.30	-0.37
	3 months	4.62	0.24
Exit Price: \$1.1498	6 months	4.68	0.88
	Financial year to date	-0.82	0.34
	1 year	-4.75	1.06
Inception date: 30 June 2005	2 years (pa)	-0.05	-0.65
	3 years (pa)	10.26	-2.11
	4 years (pa)	-1.71	0.84
	5 years (pa)	-2.28	-0.53
	Since commencement of Fund* (pa)	5.02	-0.47

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.

[^]The S&P/ASX 300 Accumulation Index was adopted as the Fund's performance benchmark on 1 July 2010. Benchmark calculations prior to this date are based on the S&P/ASX All Ordinaries Index.

*This figure represents the annualised performance of the Fund since inception.



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Market Review (continued)

official interest rate cut at the Reserve Bank of Australia meeting in May. This view contributed to Australian bond yields falling to all time lows. The Australian government 10 year bond yield touched a record low of 3.65% over the month.

While a fall in bond yields might ordinarily be expected to produce a weaker Australian dollar, the dollar, in fact, remained well supported over the month, even rising against the US dollar (0.7%) and the Euro (1.5%). The reason for the Australian dollar strength is the large gap between domestic interest rates and those elsewhere in the world, as well as the relative strength of the Australian economy.

Performance Review & Portfolio Activity

The Fund underperformed the benchmark in April, with the underweight to telecommunication services and listed property trusts sector being the main detractor from performance

The Fund rose 0.93% (net) in April underperforming the benchmark by 0.37%.

The rise in the market over the month was driven by defensive sectors, telecommunication services (7.2%), listed property trusts (5.1%), banks (3.2%) and healthcare (2.3%).

A common theme uniting the strength observed in the first three sectors is a search among investors for comparatively low risk yield in the face of collapsing yields in the bond market. Overall, the Fund was negatively impacted by this thematic as it remains underweight the largest telecommunication provider, Telstra (7.6%), as well as the listed property trusts.

The strength in the Telstra share price followed from the company's Investor Day at which the company confirmed its profit guidance for the current financial year and highlighted its strong excess cash generation over the next couple of years (supportive of the current dividend). The Fund remains underweight Telstra premised on a view that as Vodafone invests to improve its service proposition and seeks to recapture market share, we anticipate Telstra's strong recent performance in mobile devices will moderate.

Among the banks, the Fund's performance was boosted by its overweight exposure to NAB (2.6%). Over the month, NAB released details of a strategic review of its underperforming UK banking assets. As a result of lowered expectations for the UK's economic outlook, the bank announced a number of restructuring initiatives at its UK operations. These changes appear sensible and likely to place the UK business on a sounder footing going forward. We continue to remain positively disposed to NAB due to its attractive valuation, especially relative to domestic peers. While we acknowledge that some discount to peers is warranted due to a riskier lending book, lower provisioning for bad debts and the bank's lower return on capital, we believe that the current discount is excessive given the company's significant progress in addressing these weaknesses.

Another significant contributor to performance over the month was the Fund's holding in Oil Search (5.5%). The company is developing a liquefied natural gas project in Papua New Guinea in conjunction with US oil giant Exxon Mobil. Over the month the company experienced success in its drilling program designed to uncover additional gas to support an expansion of the project. Significant elements of the drilling campaign are still to come and we expect that sufficient volume to facilitate an expansion will be delivered by year end.

A theme discussed last month that continued to play out over April was companies reporting downgraded

Key Contributors & Detractors

Top 5 Contributors	Active Position	Top 5 Detractors	Active Position
Newcrest Mining Ltd	Underweight	Downer EDI Ltd	Overweight
Oil Search Ltd	Overweight	Leighton Holdings Ltd	Overweight
Crown Ltd	Overweight	Telstra Corp Ltd	Underweight
Iluka Resources Ltd	Underweight	Commonwealth Bank of Australia	Underweight
Orica Ltd	Underweight	QBE Insurance Group Ltd	Overweight



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Performance Review & Portfolio Activity (continued)

profit expectations due to wet weather. Weather was identified in downgraded forecasts this month by basic materials producer Boral (-6.2%), drilling services provider Transfield Services (-8.1%) as well as a score of mining companies, including gold producer Newcrest (-11.4%) and iron ore producer Fortescue Metals (-2.9%). The Fund's key exposures to the mining sector are through BHP Billiton (2.7%) and Rio Tinto (1.5%). While both companies also reported weather impacts on their Australian operations, the globally diversified nature of both company's operations lessens the impact of disruptions in any one geography.

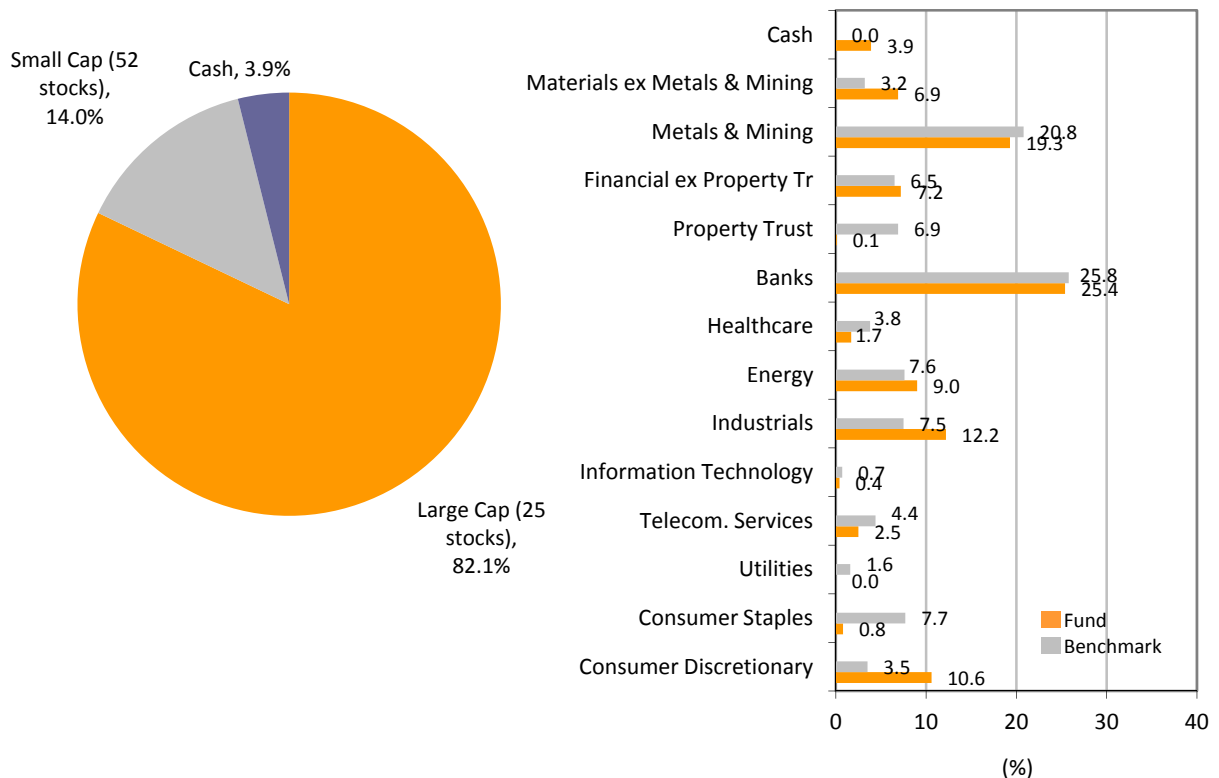
Market Outlook

While some progress has been made in attempts to resolve the debt and deficit crisis afflicting Europe, the issues are vexed, with social as well as economic dimensions. We expect governments to continue to iterate towards credible plans for tackling Europe's challenges over 2012. Nonetheless, the complexity of the problems the US is entering an electoral cycle in 2012 that promises little bipartisan agreement on needed fiscal initiatives. This situation will also likely periodically trouble financial markets over the course of the year. However, we do not expect a lack of positive policy initiatives in 2012 to derail US economic recovery. As the

Top 5 Holdings

Security Name	Sector	% of Fund
BHP Billiton Ltd	Materials	11.27
National Australia Bank Ltd	Banks	8.61
Australia & New Zealand Banking Group Ltd	Banks	8.09
Westpac Banking Corp	Banks	5.33
Rio Tinto Ltd	Materials	4.93

Asset Allocation as at 30 April 2012





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Market Outlook (continued)

year unfolds, we expect to see ongoing signs that the country's economic and financial systems are continuing to heal.

In China authorities are currently engaged in the tricky task of reining in inflation without derailing economic growth. In tandem, the government is also working on the medium term challenge of re-orienting the Chinese economy away from a reliance on property and infrastructure investment to fuel growth to a more sustainable growth dynamic which encompasses a higher proportion of household consumption.

The evidence to date suggests that Chinese authorities have had a remarkable amount of success in their key short term objective of inflation fighting without unduly curtailing growth. Furthermore, should growth slow excessively, either through the government's own actions or due to an external shock, we are comforted by the fact that the Chinese government has a range of policy tools at its disposal to underpin activity.

The pace of China's growth and the composition of that growth have been, and continue to be, vital issues for Australia's economic prosperity. Over the past decade it has been the rapid pace of Chinese growth, in conjunction with the commodity-intensive nature of that growth, which has propelled the prices of Australian commodity exports to record highs and, in the process, delivered an enormous tailwind to Australia's resources sector and to the Australian economy more broadly.

In the medium term, as new sources of commodity supply are opened up, Chinese economic growth slows and the mix of that growth changes, the upward impetus to commodity prices from Chinese demand will abate. Of course, there are a range of other industrialising countries that may assume China's role and, even if prices fall, Australia's national income will be somewhat buffered by continued growth in commodity export volumes. We continue to closely monitor the way in which this situation is unfolding, in particular, the path for resource company profitability and national income is unlikely to be a smooth one.

In the short term, Australia's economic health and resilience to external economic shocks remains strong. In particular, in the event of adverse external conditions, the Reserve Bank of Australia has significant scope to stimulate domestic economic activity through ongoing reductions in the official interest rate.

Stock markets are acutely attuned to changes in global growth expectations. With the global economic outlook likely to remain uncertain in the immediate future, we expect equity markets to remain volatile. However, in the medium term, we remain optimistic that governments will undertake the reforms necessary to entrench global economic expansion. On this medium term perspective, equity markets appear attractive at current levels.

While investors ride out any short term market gyrations, they can take comfort from the balance sheet strength of corporate Australia and benefit from the attractive dividend yield currently on offer in the stock market.

Important information

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