



# Ironbark Karara Australian Small Companies Fund

## Monthly Investment Report

April 2012

**The Fund returned -0.54% (net of fees) for the month, outperforming the benchmark by 0.38% (net of fees)**

### Market Review

**Small Cap stocks underperformed Large Caps, falling 0.92%, while the S&P/ASX 300 Accumulation index rose 1.30% in April**

Australian equity markets reached a ten month high and outperformed major global markets during April as investors welcomed the prospect of substantial interest rate cuts. The broad based S&P/ASX 300 Accumulation Index rose 1.3% to its highest point since June 2011, in contrast to flat performances in the US and Asia ex Japan, and steep falls in the Eurozone and Japan. Small cap stocks fell 0.92% as a number of smaller company earnings updates had a negative tilt.

Australian equities remained well supported during their fourth successive positive month despite increasing nervousness around Europe. Bond yields increased for most Euro countries, several countries moved into election mode and the UK slipped back into a double-dip recession for the first time since 1975. Spain in particular disconcerted markets with the 10-year Spanish bonds breaching 6% during April following the release of a new austerity budget. Spain's debt-to-GDP is expected to rise from 68.5% in 2011 to 79.8% in 2012 – a 22-year high. Further, net borrowing by Spanish banks from the European Central Bank (ECB) surged to EUR228 billion in March from EUR152 billion in February and S&P downgraded Spain's credit rating for the second time this year.

Several pending election results look set to return significant votes against mainstream parties, widely interpreted as a protest against austerity measures. In Greece the two major parties that supported the deeply unpopular bailout program have seen their support slump, with the prospect of the country achieving a workable majority in the new parliament looking increasingly challenged. First round elections for the French Presidency saw a significant vote for both socialist and far right parties (since confirmed in early May with the election of a new socialist president), and the Dutch coalition government was also toppled by the withdrawal of the populist Freedom Party in protest against a restrictive budget.

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. The Federal Reserve left the funds rate unchanged and slightly lifted its forecast 2012 GDP growth rate to between 2.4% and 2.9%.

In China the broad trend suggested the economy would avoid a hard landing as official manufacturing, inflation and lending results were better than expected. Trade data showed exports rose 9% year-on-year and imports rose 5.3% year-on-year. Whilst on a European road show Premier Wen commented "China has confidence that it will sustain steady and robust economic growth."

In Australia a number of profit warnings from domestic cyclical stocks in the retail, media and building material

### Performance as at 30 April 2012

Fund size:		Net Fund Return (%)	Benchmark (%)	Excess return (%)
\$84.9 million	1 month	-0.54	-0.92	0.38
	3 months	7.45	5.73	1.72
Exit Price: \$2.4841	6 months	9.90	4.98	4.92
	Financial year to date	6.12	-0.11	6.23
	1 year	3.09	-6.98	10.07
Inception date: 30 June 2005	2 years (pa)	10.35	1.38	8.97
	3 years (pa)	23.69	12.70	10.99
	4 years (pa)	11.74	-3.95	15.69
	5 years (pa)	7.76	-4.97	12.73
	Since commencement of Fund* (pa)	17.16	4.27	12.89

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.



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### Market Review (continued)

sectors highlighted the ongoing difficulties facing the non-mining segment of the economy. Lending to business fell for the fourth straight month in February as the value of business loans plunged -8.4%, following a -1.1% decline in January and falls in December and November 2011. First quarter CPI came in unexpectedly low and employment was unexpectedly strong in March. The RBA left the cash rate unchanged but the tone of April's commentary became decidedly dovish, signalling the possibility of near-term rate cuts. These expectations were borne out on May 1 when the RBA surprised the market reducing rates by 50 basis points.

Major commodity prices traded within a narrow range during April. Gold prices (spot -0.2%) best illustrated this with just a \$54 trading band throughout the month. Base metals (LME index 0.2%) were subdued with copper 0.7% and aluminium -1.9%. Oil (Brent -3.7%) fell following signs of progress in international talks over Iran's nuclear program. Iron ore (fines -1.5%) ended down slightly despite the post-new year recovery in Chinese steel production.

The AUD rose 0.8% against the USD to recover some of its March losses, however the greenback rallied against the Yen and the Euro after the Fed minutes weakened expectations of more stimulus measures.

Finally, takeover activity saw some progress after March's hiatus as Foxtel's bid for Austar closed following ACCC approval, Spotless Group's long-running tussle with private equity ended in a board approved bid and printer PMP advised of a conditional, non-binding approach at a 192% premium to the prior traded price.

### Performance Review & Portfolio Activity

The Fund returned -0.54% (net) during April. This constituted 0.38% of outperformance when compared with the benchmark S&P/ASX Small Ordinaries Accumulation Index return of -0.92% for the month.

At a sector level, the strongest contributors to Fund performance were overweight positions in Energy and Diversified Financials, while an underweight position in Materials also contributed to performance. An overweight position in Industrials detracted.

At a stock level the major contributors to Fund performance were Maverick Drilling and Exploration (18%), NIB (10%) and Aurora Oil & Gas (10%) while a nil holding in Flinders Mines (-32%) also contributed to relative performance. The major detractors to performance included overweight positions in M2 Telecommunications (-11%), Tox Free (-11%) and an underweight position in Medusa Mining (14%).

### Top 5 Holdings

Security Name	Sector	% of Fund
Ramsay Health Care Ltd	Health Care	3.96
Mineral Resources Ltd	Industrials	3.64
Aurora Oil & Gas Ltd	Energy	3.47
Ausdrill Ltd	Industrials	3.29
Qube Logistics Holdings Ltd	Industrials	3.15

### Key Contributors & Detractors

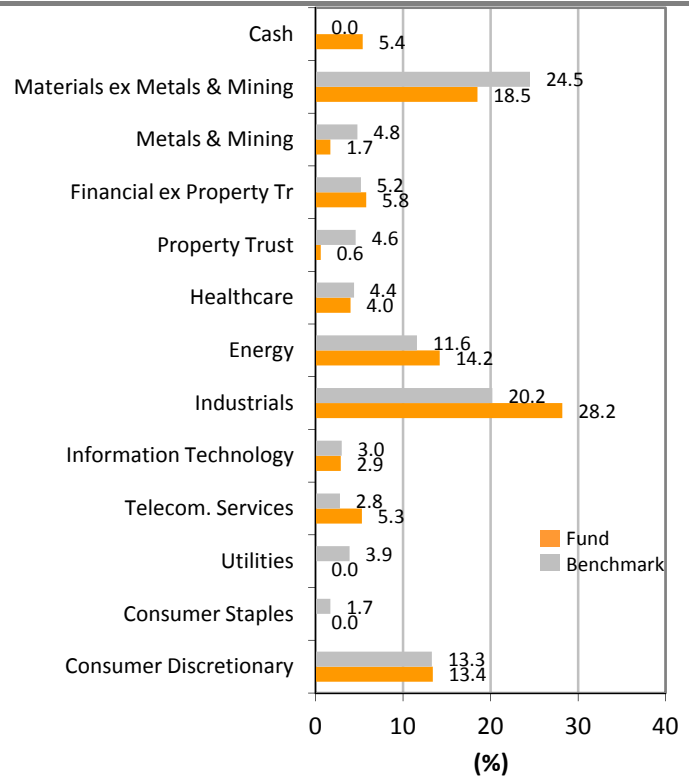
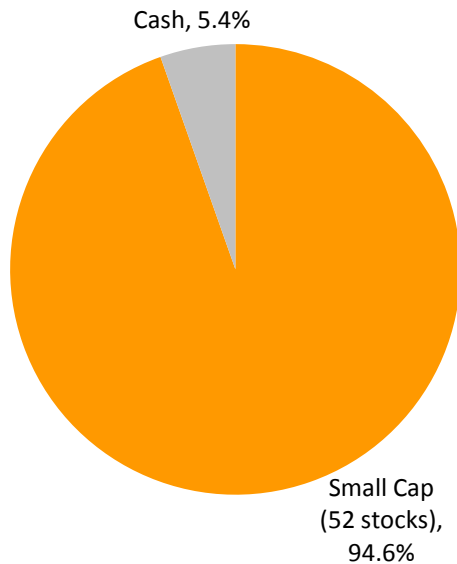
Top 5 Contributors	Active Position	Top 5 Detractors	Active Position
NIB Holdings Ltd	Overweight	M2 Telecommunications Group Ltd	Overweight
Maverick Drilling & Exploration Ltd	Overweight	Silver Lake Resources Ltd	Overweight
Red Fork Energy Ltd	Overweight	Cooper Energy Ltd	Overweight
Aurora Oil & Gas Ltd	Overweight	Tox Free Solutions Ltd	Overweight
Ramsay Health Care Ltd	Overweight	Medusa Mining Ltd	Underweight



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## Asset Allocation as at 30 April 2012



## 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 faced inevitably means further turbulence can be expected before a sustainable resolution is reached.

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 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 reorienting 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.

In Australia, the outlook is clouded by the impacts of a strong currency and divergent growth characteristics between the mining and non-mining sectors of the economy. Commonly referred to as "Dutch disease," recent sub-trend growth rates in housing, manufacturing and CPI may be expected to continue in the near term. However, the RBA still retains significant scope to stimulate domestic economic activity via interest rate cuts, even after the 50 basis points reduction on 1 May. The likely associated fall in the AUD would also improve Australia's international competitiveness and bolster the offshore revenues of Australian companies.



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## Market Outlook (continued)

The broad structure of the portfolio remains largely unchanged. We remain wary of the discretionary retail sector given both top line and gross margin pressures. We retain our exposure to the mining services sector and regard current valuations as undemanding given greater confidence in forward earnings delivery, particularly as additional projects and associated volumes come on stream and in light of the still strong capital expenditure pipeline. Balance sheet strength remains a key differentiator of higher quality companies and a key consideration in our portfolio construction process. We continue to expect the Fund's holdings to deliver earnings growth ahead of the wider market.

## Important information

### Contact details

**Individual investors:**  
1800 034 402

**Advisers, Corporate  
and Institutional  
investors:**  
1800 678 519

[www.ironbarkam.com](http://www.ironbarkam.com)

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