

# Karara Small Companies Strategy

## Monthly Review - April 2010

### April 2010

The Portfolio gained 0.70% during April. This constituted 68 basis points of outperformance when compared with the benchmark S&P/ASX Small Ordinaries (Accumulation) Index return of 0.02% for the month.

Macro economic concerns around Greece and the markets' anticipation of new taxes to be levied on resource projects as a result of the Henry review (released early May) weighed on the Small Companies Index during the month, however iron ore and coal producers managed to outperform following strong negotiated price settlements during the month. The Metals & Mining and Property Trust sectors were strongest during the month, while Health Care and Energy sectors were weakest. Smaller capitalisation stocks outperformed their large counterparts, which fell 1.5%.

At a stock level the major contributions to Portfolio performance were Northern Energy (+29%) following a hard coking coal resource upgrade together with an equity placement and off-take agreement with Chinese company Xingyang Iron & Steel. Other strong performers were Mineral Resources (+12%), Programmed Maintenance Services (+11%) and Hastie Group (+13%).

The major detractors to performance were Bauxite Resources (-50%) following confirmation of delays in the company's mining approval process and Capral (-10%) on little news.

### Activity

In a relatively quiet month the Portfolio topped up an existing position in Hastie Group and took up a placement in Matrix Engineering, by selling down a position in Super Cheap Auto and exiting Oakton.

Matrix Engineering designs and manufactures a range of products, including subsea buoyancy and pipeline insulation, for the offshore oil & gas industry. The company is on its way to significantly beat prospectus forecasts after delivering excellent 1H10 results. Revenue rose 114% to \$43.5m and impressive margins resulted in EBITDA of \$12.1m and NPAT of \$7.4m

### Outlook

There is no change to our outlook.

The Small Companies market is trading around 12.2x 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.

### Gross Performance as at 30 April 2010

|   | 1 Year         | 2 Years p.a.  | 3 Years p.a.  | Since Inception p.a.** |
|---|----------------|---------------|---------------|------------------------|
| Karara Small Company Composite <sup>#</sup> | +52.81%        | -1.45%        | -2.60%        | -0.17%                 |
| Benchmark*                                  | +39.27%        | -9.00%        | -8.99%        | -7.29%                 |
| <b>Excess</b>                               | <b>+13.54%</b> | <b>+7.55%</b> | <b>+6.38%</b> | <b>+7.12%</b>          |

<sup>#</sup> Composite of portfolios managed using this strategy (gross of fees)

\* S&P/ASX Small Ords Accumulation Index

\*\* Inception date of 1 April 2007

### Performance Attribution - April 2010

#### Top 5 Performance Contributors - April 2010

##### Security

Northern Energy Corp Limited

Mineral Resources Limited

Programmed Maintenance Services

Infigen Energy

Hastie Group

#### Top 5 Performance Detractors - April 2010

##### Security

Bauxite Resources Limited

Capral Limited

Carrick Gold Limited

Maccarthur Coal Limited

Tox Free Solutions Limited

### Sector Exposures as at 30 April 2010

| Sector            | Fund   | Benchmark* | Difference |
|-------------------|--------|------------|------------|
| Energy            | +9.0%  | +10.9%     | -1.9%      |
| Materials         | +21.1% | +27.4%     | -6.3%      |
| Industrials       | +28.0% | +17.3%     | +10.8%     |
| Consumer Disc     | +13.4% | +12.9%     | +0.4%      |
| Consumer Staples  | +2.4%  | +3.1%      | -0.7%      |
| Healthcare        | +3.8%  | +7.1%      | -3.3%      |
| Financials        | +11.5% | +11.4%     | +0.1%      |
| Information Tech  | +6.1%  | +3.4%      | +2.7%      |
| Telecommunication | +2.4%  | +1.7%      | +0.7%      |
| Utilities         | 0.0%   | +4.4%      | -4.8%      |

\* Benchmark is the S&P/ASX Small Ords Accumulation Index

# Karara Small Companies Strategy

Monthly Review - April 2010 (continued)

## Top 5 Stock Holdings as at 30 April 2010

| Security                  | Sector           |
|---------------------------|------------------|
| Mineral Resources Limited | Materials        |
| Ausdrill Limited          | Materials        |
| SAI Global Limited        | Industrials      |
| Retail Food Group Limited | Consumer Staples |
| IOOF Holdings Limited     | Financials       |

### Important Information

Karara Capital Limited has made every effort to ensure the accuracy and currency of the information contained in this document. However, no warranty is made as to the accuracy or reliability of the information. Past performance is no guarantee of future performance. This report does not take into account a reader's investment objectives, particular needs or financial situation and is general information only to wholesale investors and should not be considered as investment advice and should not be relied on as an investment recommendation. To make an investment in the fund please contact us on 03 8612 7100.

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