

Karara Australian Equities Strategy

Monthly Review — April 2010

April 2010

The benchmark S&P/ASX300 Accumulation Index fell -1.35% in April while the portfolio fell by -1.45%, underperforming by 0.10%.

Macro concerns dominated investor attention and overshadowed an outstanding US profit reporting season and very strong economic data. The Chinese government introduced aggressive policies to slow house prices while on-again, off-again Greece debt refinancing negotiations unsettled those concerned by a breakdown in deficit funding for the indebted European Union members.

The final solution for Greece and the other fiscally challenged euro economies is not clear. The key unknown is whether these countries have the political strength to push through the level of fiscal constraint needed to satisfy markets. The other unknown is whether contagion will spread from Greece to the other fiscally challenged countries. Whatever the outcome, the credibility of the euro zone has been compromised and there will be an economic price to pay.

Commodity prices were generally stronger, notably gold and oil. Local and US bonds rallied slightly partly recovering heavy losses in March and the RBA raised rates again. The A\$ rallied slightly but has struggled to move beyond the 90-93c range of recent months despite ongoing commodity price and interest rate support.

The anticipated recovery in takeover activity showed some life but so far remains largely confined to the commodity sectors. Lihir Gold revealed an approach from Newcrest, there was renewed Chinese interest in CSR's sugar business and multiple bidders for Macarthur Coal. The ACCC also blocked NAB's bid for AXA but left the door open for AMP.

Sector performance was mixed. Healthcare slumped 7% as CSL fell 11% after competitor Baxter downgraded the bioplasma industry outlook and foreshadowed price cuts.

Consumer staples were also weak as Wesfarmers posted disappointing retail sales numbers.

REITs outperformed by 4% as sector heavyweight Westfield's rose 7% coincident with improving US retail sales. Telcos were the other strong gainer as Telstra rose 6% on expectation that a resolution with the Government over the NBN is close.

The portfolio benefitted from overweight positions in News Corp, James Hardie, Ansell and Macquarie. Underweights in CSL, Wesfarmers, and Asciano were beneficial.

Underperforming were positions in ANZ, Santos, Incitec Pivot and Rio Tinto. More detrimental however were nil holdings in Lihir (+26%) and Westfield.

Gross Performance as at 30 April 2010

	1 Year	2 Years p.a.	3 Years p.a.	Since Inception p.a.**
Karara Australian Equities Composite [#]	+39.02%	+2.19%	+1.50%	+1.50%
Benchmark*	+32.47%	-3.01%	-3.97%	-3.97%
Excess Return	+6.55%	+5.20%	+5.47%	+5.47%

[#] Composite of portfolios managed using this strategy (gross of fees)

* S&P/ASX 300 Accumulation Index

** Inception date of 1st May 2007

Performance Attribution - April 2010

Top 5 Performance Contributors - April 2010

Security

News Corp (Prefd)

Macquarie Group Limited

Wesfarmers Limited

CSL Limited

National Australia Bank

Top 5 Performance Detractors - April 2010

Security

Commonwealth Bank of Australia

Westfield Group Australia

Rio Tinto Limited

Lihir Gold Limited

Downer EDI Limited

Sector Exposures as at 30 April 2010

Sector	Fund	Benchmark*	Difference
Materials	+28.5%	+25.2%	+3.3%
Financials	+35.1%	+39.6%	-4.5%
Industrials	+8.7%	+6.7%	+2.0%
Consumer Staples	+3.0%	+8.1%	-5.1%
Healthcare	+4.2%	+3.5%	+0.7%
Telecommunication	+2.0%	+3.4%	-1.4%
Energy	+4.6%	+7.2%	-2.6%
Utilities	0.0%	+1.3%	-1.3%
Consumer Disc	+9.4%	+4.3%	+5.1%
Information Tech	+3.2%	+0.8%	+2.4%

* Benchmark is the S&P/ASX 300 Accumulation Index

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Monthly Review — April 2010 (continued)

Activity

The fund continued to add to positions in Amcor and Brambles. This was funded by some reduction in James Hardie and Rio Tinto.

Outlook

Domestically corporate management remains cautious on the outlook despite clearly improving underlying momentum. We see this as unsurprising given their experience through the credit crisis and expect the tone to improve as revenue trends become more apparent later in the year.

We are finally starting to see reducing investor fears over on the likelihood and timing of US recovery. This should continue to benefit a number of under appreciated US exposed companies held in the portfolio.

Looking forward we expect Australian companies will increase the acquisition of overseas assets given high domestic market shares, currency strength and a cost of equity advantage. We hold a number of companies with the expertise, capital and market position to benefit from this.

Several industries have yet to feel benefits of the restocking cycle which should kick in the coming quarters.

We expect local business investment will likely be stronger than consensus estimates. Unlike other countries Australia has limited spare capacity, return on capital remains high and credit markets have re-opened. However, marginal projects risk being crowded out by public spending.

Commodity prices are now well above long run averages reflecting demand growth – largely from China - well above the market's capacity to supply. Developed economy activity remains below trend levels and should recover through the balance of the year. Supply growth has been delayed by last years collapse in confidence and funding availability.

Non Japan Asia continues to run very loose monetary policy. While CPI remains well contained some asset markets are showing signs of overheating. To this end, we recognize that the composition of the Australian market means the index is increasingly a bet (directly or indirectly) on Chinese growth. While still positive on this long term thematic, we recognise some slowing is required, and are closely monitoring events in China.

Overall we continue to find good opportunities for disciplined stock selection.

Top 5 Stock Holdings as at 30 April 2010

Security	Sector
BHP Billiton	Materials
National Australia Bank	Financials
Australian & New Zealand Banking Corp Limited	Financials
Rio Tinto Limited	Materials
Westpac Banking	Financials

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