

Monthly Investment Report

Antares Lodestar Absolute Return Trust Australian Shares

Market Review

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- The Antares Lodestar Absolute Return Trust – Australian Share Fund returned -1.01% for the month of June. Sharemarkets were generally down. The Australian sharemarket was down 2.6% and the US S&P500 was worse falling 5.4%. The Australian sharemarket has now lost 11.1% in the June quarter.
- Markets were dominated by Europe's sovereign debt crisis and the lowering of the global growth profile, in particular USA and China.
- This played out in most financial assets. Australian Defensive sectors were up in June with Staples and Utilities up 0.5% and 0.7% respectively. Telecommunications was the strongest up 9.5%, though this was enhanced by the deal between Telstra and the Federal Government. Resource stocks did reasonably well given the waning global growth profile, being down only -1.2% as the sharemarket factored in a Government compromise regarding the Resources Super Profits Tax. Other Cyclical sectors did not fare as well, with Industrials -8% and Consumer Discretionary -5%. Banks fell 6% with earnings downgrades filtering into 2011 forecasts.
- Bond markets here and in the US were very strong consistent with the lower economic growth profile. The US Two Year note fell below 0.60% yield, breaking the previous low set at the time of the Lehman collapse in September 2008. The US Ten Year bond has fallen from 4% to 3% over the past two months, during which time the Australian Ten Year bond yield has fallen from 5.8% to 5%.
- The Reserve Bank of Australia paused raising official rates this month after raising them six times of the last seven meetings. The Board argued for a pause given the market volatility and its potential implications for growth. Signals in the domestic economy have become mixed with employment remaining robust but consumer and business confidence surveys and the level of private sector credit growth losing momentum.
- The Australian dollar fell 1c versus the USD to 84c.
- Commodities were mixed with Gold and Oil both up 2.5% and Iron Ore, Copper and Aluminium down 4%, 6% and 5.5% respectively.

Portfolio Activity

- The Fund's market exposure continues to decline.
- The Fund's net market exposure declined 5% to 13%. This move was achieved by lowering the exposure to Financial stocks.
- The Fund's gross exposure (longs plus shorts) moved down slightly from 44% to 42%.

Fund Performance

Period ending 30.06.10	1m %	3m %	1yr %	2yr % p.a.	3yr % p.a.	Since Inception % p.a.
Total Return	-1.01	-5.30	15.55	-3.02	-2.51	-0.36
Benchmark *	0.36	1.11	3.86	4.72	5.59	5.70
ASX200 Accum. ^	-2.59	-11.14	13.15	-4.94	-7.85	-4.60

Performance returns are calculated net of management and performance fees and are pre tax. Past performance is not a reliable indicator of future performance, the value of your investment can go up and down.

* 90 day Bank Bill rate resets quarterly (Benchmark) and is used for the purposes of calculating the performance fee.

^ S&P/ASX 200 Australian Shares Accumulation Index is provided for comparison purposes due to the Australian Share investment focus of this Fund. It is not the Fund's benchmark.

Inception date 1 March 2007.

- The Fund's unit price fell 1.01% in June. The Fund benefited from hedging put in place to cover the physical stocks the Fund holds. Over the past year domestic cash has returned 3.9%. The sharemarket has performed significantly better, up 13.1% as it has rallied strongly post the large falls of 2008 and early 2009 associated with the Global Financial Crisis. The Fund has outperformed all competing asset classes with a return of 15.5% for the 2010 financial year.
- The Fund's volatility has continued to decline throughout 2010 and remains closer to government bonds than equity markets.

Positive Influences

Company	June Return %	Fund Position %
SPI Futures	-3.9	-11.6
Coca Cola Amatil	9.4	0.5
Amcor	3.8	0.9

- Coca Cola Amatil (CCL): Coca Cola Amatil has benefited from continued operational momentum and a general market shift towards defensive stocks.
- Amcor (AMC): Amcor's management again displayed their ability to make sensible acquisitions with the purchase of the small but complimentary Ball Plastics. While Amcor have shown they can be sound acquirers, their attention must shift to integration and operational management with the Ball and the much larger Alcan acquisition less efficient than comparable divisions within Amcor.

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Negative Influences

Company	June Return %	Fund Position %
News Corporation	-8.0	2.7
Ten Network	-8.0	1.7
FKP Property	-12.3	1.1

- News Corporation (NWS): News Corp has made a bid at Seven Pounds (well above the prevailing share price) for the remaining BSkyB stock (it presently owns 39%). Also the global media stocks all suffered a pull back as the US market became less certain about their rate of economic growth.
- Ten Network (TEN): Ten Network fell on the back of the anti-cyclical theme persisting in the market despite the company receiving earnings upgrades. In addition TV ratings were historically strong with 'Masterchef' attracting 1.8 million viewers per night.
- FKP Property (FKP): The stock announced a revised distribution policy during the month. The company doubled its previous earnings guidance and first half distribution and now will pay out between 40% and 60% of realised operational profits in distribution. This is a result of confidence in the development pipeline and its business model after the recovery from the disruption to capital markets in the recent past. In addition the company took a strategic stake in Port Bouvard of 34% (WA residential).

Outlook

- The themes that have been identified by the Lodestar team since late December have become well established and are dominating the performance of global sharemarkets. Globally share markets have begun capitulating under pressures from not only the Euro-zone sovereign debt crisis but also the concern over the complexity of the balancing act by Chinese officialdom and the growing evidence that the momentum of the recovery in the US is waning. Since the April sharemarket highs, the ASX200 is down 15% and the US Dow Jones is down 13.5%. This is the worst quarterly performance since the last quarter 2008.
- Portugal and Spain have suffered credit rating downgrades. There remains significant concern that the EU and IMF bailout packages may not necessarily resolve the economic fallout given the Greek precedent. The German and Spanish governments have passed austerity packages to ensure fiscal stability. These packages are unlikely to be palatable to voters and political pressures will remain a feature of future policy settings. In addition, the predominant concern is that tightening fiscal policy at a time when continued expansionary policy is required places pressure on Euro-zone GDP forecasts for the next few years. The benefits of the low Euro have already been reflected in recent Industrial Production statistics (particularly Germany) and the low Euro is becoming an economic imperative as opposed to a source of

concern. An encouraging development is that countries such as Spain are managing to raise debt successfully, albeit at expensive rates relative to other OECD countries. The basic concern with many European countries is that the economic austerity measures are going to lead to a prolonged period of economic malaise. In the case of Italy, it would need to run a budget surplus of five per cent of GDP for 15 years to get its public debt-to-GDP below 100 per cent, according to Roger Bootle from Capital Economics.

- China is now dealing with how to sensibly deflate the property bubbles in its large coastal capitals, control growing inflation and keeping the economy growing at least 6% to 8%, at a time when its key trading partners are under renewed economic pressure. Recent Purchasing Managers Indices show China is expanding at a decreasing rate and inflation is still rising. This is not the bull market combination.
- Australia, the OECD's beacon of economic stability, produced annual GDP growth of 2.7%. This growth rate was assisted by government stimulus (both fiscal and monetary). This stimulus tailwind remains in place in the form of fiscal policy however Australia's Reserve Bank has now removed its "emergency settings" and is progressing towards actually slowing the economy down through higher cash rates. The RBA has now tightened on six occasions in nine meetings so far this cycle. This is one of the most aggressive sequences of official interest rate hikes Australia has seen. Lodestar is of the view that a pause should and could be seen for most of the remainder of the year and this is what seems to be developing at the moment. A tightening in the third quarter is unlikely to be taken well by the sharemarket.
- The US economy is staging a recovery though at a muted pace versus the recovery seen from previous post war contractions. Activity reports (ISM Manufacturing and Services) are now looking like they have peaked for the year and housing (activity and pricing) and consumer lending growth remain at low levels.
- The FY10 reporting season should reflect an improving economy though expectations are high and guidance will be critical. Presently Australia's sharemarket expects 27% earnings per share growth for FY11. The sectors expected to produce the highest growth are Energy, Metals & Mining and Financials. Resource sector earnings upgrades have stopped. Recent bank results were dominated by trading profits and lower credit costs. This boost to earnings does not have a long duration to it. In addition system credit growth rates are continuing to run at sub-par levels and retail banking competition remains fierce. As a result there have been downgrades developing in the FY11 and FY12 forecasts for this sector. We have started to see profit warnings spreading across a wide range of industries. Sectors such as Healthcare, Airlines, Logistics, IT and Retailers have all warned of deteriorating earnings metrics.
- The fragile nature of the global recovery and the high earnings hurdle are likely to create an environment where if doubts regarding the projection of the

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economic recovery come into play (and thus the level of earnings), then equity markets will correct as they did in January, early February and now in May/June. The likelihood of the flow of both positive and negative news is high given the current economic and political settings. This has been highlighted recently with the significant swings in currencies, bond markets and sharemarkets. Not only active stock picking but active

allocation and protection of capital will be a feature of this year.

- The Australian sharemarket has been in a trading range between 4,200 and 5,000 since September 2009. In over nine months the capital gain from the market has been zero. This saw-tooth action from the market is very likely to continue into the second half of the calendar year.

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