

Monthly Investment Report

Antares Lodestar Absolute Return Trust Australian Shares

Market Review

John Morgan, Chief Investment Officer Lodestar Capital Partners

- The ASX 200 Accumulation Index returned 7.3% in July, the highest level since November 2008 and recorded the fifth consecutive monthly rally. The market has now gained 34.9% since the low on March 10, 2009.
- The Australian market rally mirrored the US S+P 500 index which gained 7.4% over the month, also matching levels not seen since November 2008. More impressive is the statistic that this was the strongest five month period since 1932. Early weakness due to disappointing US employment data was rapidly overtaken by subsequent releases and a positive tone to Q2 corporate earnings replenished investors' confidence. Indeed, thus far the US reporting season has broadly been characterised by underestimated operating margins, hence many companies' results have exceeded analysts' forecasts and catalysed the equity market rally.
- The Australian Banks index (+9.4%) and Resources (+8%) outpaced the broader market, despite the capital raising by National Australia Bank of \$2.75bn earlier in the month. Resources found favour in response to stronger commodity prices while the Consumer Discretionary index also gained 9.4% and beat the broader index for the sixth consecutive month. This was in response to better than expected economic data which suggested Australia is in a shallower downturn than feared only a few months ago.
- Retail sales, consumer sentiment and employment data all surprised on the upside, while building approvals declined. Housing finance data remained robust suggesting that an improvement in housing activity should still be anticipated later this year. Importantly, business confidence is improving and in June registered the first positive result since December 2007. The RBA elected to keep cash rates on hold at 3% and indicated that the potential for further rate cuts this year is diminishing in light of the improving economic landscape.
- It is important to note that Australia's early fiscal response to the global financial crisis is bearing fruit. Australia is in the 30% of OECD countries that commenced stimulating the economy in 2008; it was large at 4.6% of GDP over 2008-2010 compared with the OECD average of 2% and focussed on spending rather than tax measures. Economists point to the multiplier effect of the substantial government spending (as a percentage of GDP) in explaining the rebound in consumer spending and retail sales.
- Combined with the increasing signs of a cyclical recovery in China and other key economies, the prospects for Australian growth are improving and unemployment data may continue to positively surprise.
- Australian 10 year bonds rose 8bp to 5.61% and yields have now risen for 7 consecutive months – this scenario has only occurred twice in the past 30 years.
- The AUD rebounded from a sell-off early in the month and gained 1.6c to finish at 82.8c.
- Crude oil fell in early July but recovered in line with the recovery sentiment. Gold ended the month at USD938.60,

down only 0.2% but growing risk appetite diminished gold's favour as a safe haven.

- Base metals were volatile with copper registering 9 month highs. By month end there was no resolution to the iron ore negotiations between Chinese buyers and global producers.

Portfolio Activity

- The Fund continued to increase net exposure which reached 82% by the end of July from 75% in June. The gross exposure is slightly higher despite the Fund closing out all shorts. The higher gross figure is attributed to the Fund selling call options against selected core long positions.
- The only change in sectoral positions was a slight decrease in the energy exposure in favour of consumer cyclicals and financials – mainly the large banks.
- The Fund's net exposure is at the higher end of the recent historic range. This demonstrates our bullish market stance at this point in the cycle. This is discussed in more detail in the Outlook segment of this report.

Fund Performance

Period ending 31.07.09	1m %	3m %	1yr %	2yr % p.a.	Since Inception % p.a.
Total Return	6.26	7.29	-13.61	-7.69	-3.88
Benchmark *	0.27	0.79	5.17	6.32	6.37
ASX200 Accum. ^	7.31	13.13	-10.20	-12.94	-8.32

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 returned 6.3% (post fees) in July. This is the best monthly return for the Fund since inception and was mainly attributed to our holdings in the financial stocks (particularly the large banks) and domestic cyclicals, such as JB Hi-Fi and GUD Holdings. The closing out of all short positions augmented July's performance in light of the breadth of the recent rally. Many stocks that have poor fundamentals have also been rallying strongly as they are unlikely to maintain losses, but it remains to be seen exactly how profitable these deep cyclicals will be once the recovery is underway.

Positive Influences

Company	July Return %	Fund Position %
GUD Holdings	27.0	2.4
ANZ Banking Group	12.4	3.6
National Australia Bank	9.3	3.2

Monthly Investment Report

Antares Lodestar Absolute Return Trust Australian Shares

- The domestic cyclical GUD Holdings, which owns Davey (water products) and Sunbeam (consumer items), produced a profit of \$37.4 million – down 1% from a year earlier. How was this stock the Fund's best performing position? The result was slightly better than the market was expecting, however, the guidance was for a better year in 2010. The market consensus data was for 2010 to be worse than 2009. This comment forced the entire market to upgrade its earnings for next year. This led to a significant rally in the share price as the valuation setting for the stock was very inexpensive courtesy of expectations of deteriorating profits. The same phenomena occurred with Bradken at the time of writing and a similar stock price rally occurred.
- The large banking stocks were major contributors to the market rally during the month. The portfolio benefited from good positions in Nab, ANZ and Westpac. The Australian economy has surprised on the upside over the past quarter, with both consumer and business surveys as well as employment data clearly showing that the banking industry's bad and doubtful debt cycle will not be as bad as some of the existing provisioning put in place by the banks has anticipated.

Negative Influences

Company	June Return %	Fund Position %
ResMed	-4.8	1.9
Tatts Group	-3.9	1.8
Ramsay Healthcare	-1.1	1.7

- The stocks that reduced the alpha generation during the month were the more defensive stocks in the portfolio, once again. Companies with above average security of growth have been continually used as funding sources for the large capital raisings of the more cyclical companies that needed to repair balance sheets due to the global credit crisis. This may abate at some point as the majority of raisings have occurred and the relative valuation between cyclicals and defensives has closed significantly over the past six months. The table above highlights typical examples of the phenomena e.g. ResMed, (which has just produced a high quality result). Ramsay Healthcare and Tatts Group.

Outlook

- The buoyant mood of equity markets continues as could not of possibly be envisaged at the beginning of the year. The activity data from China continues to remain unseasonally robust. Indicators such as Purchasing Managers Index (PMI), electricity generation and Money Supply data all show a very strong economy.
- The Australian economy is continuing to reflect an environment that can only be described as a gentle slowdown, as opposed to the expectation of an extreme hard landing at the beginning of the year. The best example of this change in expectations of the economic prospects for Australia is the forecasted peak in unemployment this cycle. Many bearish pundits had Australia suffering up to 10% unemployment. A recent bearish economist has just moved from 9% to 7% peak unemployment, with consensus now firmly below 8%. Interestingly, this top down change has not been reflected in many bottom up earnings expectations. Many analysts have spent the last year busily downgrading financial year 2009 and 2010 earnings and have not had the courage to reverse these expectations until at least this reporting season which has just begun. This is exactly why stocks such as GUD, AXA and Bradken have bounced all by more than 10% post result.
- This trend started in the U.S. with their reporting season, which is almost completed. The major theme there was that 72.5% of companies exceeded expectations and by an average of at least 15%. The vast surprise was in the degree of cost cutting achieved by U.S. corporates. This has been taken very positively by the U.S. market as this implies that when the economic recovery starts to take hold it will be reflected through the revenue line and with cost already cut the leverage should be strong. This in turn caused upgrades to forecasted earnings and share prices reacted accordingly. The key to the sustainability of the rally is the strength of the recovery, a key component of which will be the consumer. If the de-leveraging of the community continues it may be an insipid rebound. Time will tell.
- Another indication that the U.S. may be through the worst of the global credit crisis is that initial claims seems to have peaked. Normally once this transpires economists can reasonably predict peak cycle unemployment. Given this the range for this U.S statistic is now between 10% and 11%.

Important Notice

Antares Managed Investments Limited ABN 61 083 784 463, AFSL 312122 ("AMIL"), is the Responsible Entity of, and the issuer of units in, the Trust. The Product Disclosure Statement for the Trust (PDS) is available by calling the Investor Services Team on 13 00738 355 visit www.antareshcapital.com.au. You should consider the PDS in deciding whether to acquire, or continue to hold, units in the Trust and consider whether the Trust is an appropriate investment for you, and the risks of any investment. This report does not take account of your objectives, financial situation and needs. You should therefore, before acting on information in this report, consider its appropriateness, having regard to your objectives, financial situation or needs. We recommend you consult a financial adviser. Any projection or other forward looking statement ("Projection") in this report is provided for information purposes only. No representation is made as to the accuracy or reasonableness of any such Projection or that it will be met. Actual events may vary materially. Performance figures are calculated in accordance with the Investment and Financial Services Association (IFSA) standards. Total returns are calculated to the last day of each month (unless otherwise indicated) using exit prices and assuming reinvestment of distributions (which may include net realised capital gains from the sale of fund assets). An investment in the Trust is not a deposit with or liability of NAB or any other member of the NAB group of companies (NAB Group) and is subject to investment risk, including possible delays in repayment and loss of income and capital invested. Neither AMIL nor any other member of the NAB Group guarantees the repayment of your capital, payment of income or the performance of your investment. NAB does not provide a guarantee or assurance in respect of the obligations of AMIL, Lodestar or the Trust.