



Fund Update

Antares Lodestar Absolute Return Trust Australian Shares

The Australian Securities and Investments Commission (ASIC), over the past weekend and yesterday, announced a range of measures in relation to short selling. These included prohibitions on naked short selling and covered short selling for an interim period.

ASX Approved Market Makers will be exempt from the prohibition on covered short selling. All changes became effective on the commencement of trading on Monday, 22 September 2008.

The initial prohibition on all forms of short selling lasts for 30 days. During this time, ASIC may exempt certain types of short selling from the prohibition. There are amended net Short Sales reporting requirements. The ASX has also issued a Short Selling Fact Sheet which clarifies that the ASIC prohibition on short selling does not apply to current holdings.

The Antares Lodestar Absolute Return Trust - Australian Shares (ALARTAS) uses a variety of investment techniques to meet its investment objective. These include covered short selling.

The existing short positions in the ALARTAS are not directly impacted as a result of the ASIC announcements. The Fund's portfolio manager, Lodestar Capital Partners Pty Limited (Lodestar) has assessed the likely impact of the ASIC measures and has formed the view that superior absolute return generation previously provided from covered short selling may, subject to market conditions, be sourced from alternative investment strategies (such as use of the exchange traded option market to purchase put options). Accordingly, it is expected that the Fund's ability to meet its investment objective should not be compromised materially through ALARTAS complying with the ASIC measures. In this context, it may be noted that Lodestar already uses such options in management of the portfolio.

Antares remains confident that the Lodestar team can continue to add value to the Fund, consistent with its investment objective. A market update from Lodestar follows.

Summary

- The Fund aims to provide investors with superior absolute returns in both rising and falling Australian equity markets over the medium to long term.
- The Fund has a number of strategies and tools available, to achieve its performance objective - short selling is only one of these tools.
- We will continue to communicate with you over the coming period to provide updates on the Fund position.
- If you would like further information please contact your MLC or nabInvest sales representative.

Important Notice

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Market Update

23 September 2008



Background

There have been a number of significant events that have caused a continuation of the elevated levels of volatility in global financial markets. The Australian stockmarket has not been an exception. Over the past three weeks the world has seen the demise of long standing investment banks Lehman brothers and Merrill Lynch. In addition The U.S. Government has effectively nationalized mortgage providers Fannie Mae and Freddie Mac. These two organizations are involved in approximately 50% of all mortgages in the U.S.A. More recently a similar assistance package has been organized for the world's biggest insurer, American Insurance Group.

This has led to international concern over the security and stability of many more financial organizations and the functioning of the global financial system itself and led to the historic merger of Lloyds and Halifax Bank of Scotland in the United Kingdom. More recently, perceived safer organizations such as Morgan Stanley and Goldman Sachs, even after better than expected financial results were disclosed to the market place, have come under intense speculation and share price pressure.

Rulings on Short Selling

As a result, the U.S Treasury Department has submitted legislation to the Congress requesting authority to purchase troubled assets from financial institutions in order to promote market and economic stability. In addition "naked" short selling (selling a stock that is not owned by the seller) has been outlawed and additional "covered" short selling (selling a stock that has been borrowed from a registered owner of the stock) in financial stocks have been temporarily restricted until further notice.

Other nations have implemented similar initiatives, including Australia. Australia has gone even further in that all stocks and not just financial stocks have been restricted from additional "covered" short selling for at least thirty days. This means that existing shorts can be maintained but an increase in that position is not allowed.

The Australian Securities and Investments Commission (ASIC) has instigated these changes in order to ensure an orderly stock market. The ASIC emphasizes that it sees a legitimate place for short selling in markets, however, in the current climate and in light of the actions taken by other regulators, a circuit breaker is needed to assist in maintaining and restoring confidence.

Positioning of the Antares Lodestar Fund

The Fund has some "covered" short positions currently and will close them in line with the Fund's well defined process. This means that we think that these companies are fundamentally expensive and their current prospects indicate that a lower share price is warranted. This aspect is a normal part of the Fund's operations. (The Fund does not execute "naked" shorts.) The Fund can, under normal market conditions, have "covered" short positions. These are discretionary and are only initiated when there is a perceived benefit for unitholders.

It is only one aspect of how value add is generated by Lodestar. Over the past year value has been added through this mechanism. However timely selling of the Fund's long positions and index hedging combined has far outweighed this benefit.



We are of the belief that markets will return to some form of normalcy and “covered” short selling will be reinstated. If, for some reason it is not, we believe the Fund can use the exchange traded option market to implement strategies such as buying put options and the excess return generation from this activity should not be compromised materially.

Thus there are several levers to add value for clients. Our market view is that there is some good long term value developing in the market and with the U.S officials continual initiatives to address the current credit crisis stability may eventually prevail. Under this scenario it should be expected that the Fund would not have a significant need to short as in the period from 2005 to 2007, where significant alpha (stock selection value add) was achieved using other investment techniques available to the manager.

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