

Monthly Investment Report

Antares Lodestar Absolute Return Trust Australian Shares

Market Review

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- The ASX200 Accumulation Index consolidated recent gains by rallying 1.3% during May. Volumes traded during May were the strongest of the last seven months averaging approximately \$4.4bn each day.
- Investor confidence has been steadily improving as economic data continues to provide evidence that the global business cycle is stabilising. The market has risen 22% from its March 9 low, although Australia trails global equity markets (MSCI World ex Aust Index – local currencies) which has risen 35% over the same period.
- Economic data strengthened during May with US consumer confidence, Japanese industrial production and Australian housing finance and building approvals all exceeding estimates. Australia's consumer confidence was the only weak figure released during the month.
- The Australian Federal Government delivered the FY10 budget adding further stimulus (0.7% GDP) to the economy and ASIC removed the short-selling ban on Financials.
- Bank results during May reinforced the trend of increasing provisions for bad debts. ANZ accompanied its interim results with a deeply discounted \$2.5bn share placement at \$14.40. NAB was the best performer of the major banks, up 6.7% in May. Westpac was 1.2% higher after reporting H109 cash earnings of \$2.3bn, down 6% pcp due mainly to increased provisioning charges. CBA was steady after providing a Q309 trading update during which management stated the final dividend would be cut by 25%. All major banks have restored Tier1 capital ratios to well in excess of regulatory requirements. Macquarie Bank's FY09 result was down 52% pcp and the company announced a \$540m capital raising.
- Deeply discounted equity issues continued throughout the month as companies continued to de-leverage balance sheets ahead of debt refinancing. Total equity issued in May was \$15bn. Over the past year \$70bn has been raised, of which \$50bn has occurred since the collapse of Lehman Bros last September. The Australian equity market's performance against this backdrop is quite extraordinary. The number of placements and rights issues is at unprecedented levels, both in absolute terms and as a percentage of market capitalisation. The speed of issuance via accelerated rights issues and placements has been assisted by ASIC's granting of waivers which means raisings can be implemented at short notice rather than taking the traditional five weeks.
- Hence corporates with stretched balance sheets can, at very short notice take advantage of relatively strong share prices to issue capital to a resilient and hungry market. The market's ability to absorb this volume has been even more remarkable as brokers and corporates continued announcing company earnings downgrades for FY09 and FY10 during the month.
- Over May sentiment continued to shift towards companies leveraged to a cyclical recovery as leading indicators and commodity prices moved up. The Mining, Energy, Industrial sectors outperformed Telecommunications, whilst Healthcare and Consumer Staples lagged.
- May's economic data provided further evidence that the economy could surprise on the upside. Building approvals rose and retail sales exceeded consensus estimates. The RBA left interest rates unchanged at 3.0% though commentary suggested retention of an "easing" bias. The AUD/USD continued rallying finishing the month at US0.79c, up 6.5c reflecting USD weakness, stronger commodity prices and the relative strength of Australia's economy.
- Commodity prices seem to be recovering earlier this cycle mainly due to a resurgent Chinese economy, infrastructure projects and supply cutbacks.
- Oil is up 95% since its lows of late 2008, base metals are up 35%, and gold is up 34% in the same period. All of these factors are buoying the AUD.
- Australian GDP only fell 0.5% in the year to March (amongst the best in the OECD), compared to slumps of 2.6% in the US to 9.7% in Japan, with Europe declining by 4.6%. Australian interest rates are relatively high, plus we are leveraged to the Chinese economic recovery. Australia is also seen as a key beneficiary of carry trades.
- Other strong equity market performance were produced by NewsCorp, up 11.1% as Rupert Murdoch delivered an upbeat Q3 result and commentary and revised guidance, stating that "it is increasingly clear that the worst is over". David Jones was up 19% on the back of stronger Q3 sales results. Incitec rose by 27.5% and Orica gained 19.9% during May due to strong H109 results.
- Weak share prices were seen by Billabong after a disappointing trading update and a capital raising, Seven Network was weaker by 12.4%. Tatts Group fell 11.6% tracked lower despite little news flow. Woolworths and Wesfarmers were each down approximately 5%.
- Of the energy stocks Woodside Petroleum rose by 13%, in line with the oil price. The company stated that it had secured an USD1.1bn syndicated loan facility to fund capex and for general corporate purposes.
- The resource stocks were led higher by leveraged pure plays such as Murchison Metals up 63.3%, Mt Gibson was up 23% and Fortescue rallied by 11% in response to improving sentiment regarding iron ore. Copper stocks also rallied strong with ABY up 55.6% and EQN up 30.5%.
- Coal stocks also improved with Whitehaven up 47.5%, Riversdale up 48.5% and Macarthur up 28.3%.
- Long bond yields in the US and Australia continued to rise during May but the short end of the yield curve is anchored at the lows due to central banks' monetary policy settings. The higher long term yields are potentially negative for equity markets and asset prices in general.

Portfolio Activity

- The Fund decreased its net and gross exposure to the market during May. Given that profit warnings and capital raisings continued unabated throughout the month it was deemed wise to reduce exposure and look to pick up stocks at a discount through the capital raisings.

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- The net exposure fell from 30% to 20.7%. This was mainly achieved by reducing long positions. Shorts were selectively increased through the purchase of put options. Thus long positions fell from 27.7% to 23.3% and net leverage declined from 4.5% to -0.7%.

Fund Performance

Period ending 30.05.09	1m %	3m %	1yr %	2yr %	Since Inception % p.a.
Total Return	-0.14	5.14	-23.79	-10.48	-7.17
Benchmark *	0.26	0.85	6.00	6.62	6.61
ASX200 Accum. ^	1.36	15.54	-28.94	-18.52	-13.24

Performance returns are calculated net of management fees and 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 -0.14% in May, which was in line with the market month to date until the last day of the month. The market rallied 1.7% on 31st May and with only 20% net in the market the Fund posted only a modest gain that day. Calendar year to date the Fund has produced 42% of the market rally. This is robust considering the Fund's low exposure to the market. This has been achieved by taking very little risk, consistent with the Fund's objective of achieving equity like returns with lower risk.

Positive Influences

Company	May Return %	Fund Position %
Sino Gold Mining	19.6	2.0
Village Roadshow Prefs	23.8	1.0
Ramsay Health Care	18.9	1.8

- Sino Gold held a site visit and operational update of its mines in China. This was received well by the market and led to a mild re-rating in conjunction with a general rise in gold stocks.
- Village Roadshow shares continued to be volatile, rising more than 20% after falling by as much in April. The only company announcement in May was the decision of the board of Village to pay an interim dividend of 3.75c per share.
- Ramsay Healthcare issued a profit upgrade during the month. This was taken very well by the market.

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Negative Influences

Company	May Return %	Fund Position %
Resmed	-14.4	3.1
Tatts Group	-11.6	3.3
CSI Limited	-15.2	1.1

- ResMed announced an excellent quarterly result during May which led to upgrades to its full year earnings forecasts. However, the significant rise in the Australian dollar weighed heavily on the stock for the remainder of the month.
- Tatts Group had no announcements over the month and there were no changes to the earnings outlook. However, the stock fell nearly 12%. It has been one of the many stocks that has no balance sheet issues or earnings concerns but has been used by the market to fund the many capital raisings that have been issued to repair balance sheets in the wake of the global financial crisis.
- CSL has come under pressure due to the uncertainty surrounding the Talecris acquisition ahead and consequential litigation. U.S authorities are opposed to the acquisition based on market concentration concerns.

Outlook

- The world equity markets continued to rally strongly with the U.S. S&P500 rising 5.3% over the month of May. As mentioned in last month's outlook many leading indicators that were trending extremely poorly in December 2008 are now beginning to trend much more positively. These indicators range from global credit market spreads to share price volatility. The vast majority of these indicators are now clearly indicating that financial markets are through the eye of the global financial storm. Other leading indicators that are not quite as supportive (such as Uni of Michigan consumer sentiment indicator) are at least stabilising at historically low levels.
- Lagging and coincident indicators are still reflecting an extremely poor economic environment in the U.S.A, Europe, UK and Japan. The bright spot is China which has seen a strong rebound in its leading indicators and commodity consumption has been extremely robust in the last four to five months.
- Corporate profits are still falling with earnings downgrades regularly being announced either from brokers' estimates or the company itself. It will prove difficult to maintain a sustainable rally in sharemarkets without this metric at least stabilising and preferably turning around.