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Monthly Investment Report

Antares Lodestar Absolute Return Trust Australian Shares

Market Review

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Lodestar Capital Partners

- The ASX 200 Accumulation Index returned 6.5% in August which was its sixth consecutive monthly rise and has now rallied from its March low by 42%.
- During August the MSCI World Index gained 3.9% (in USD) but European and US markets outperformed Asia. The Shanghai Composite fell 21.8% over the month as concerns over Chinese economic policy prompted broad based selling.
- The US S+P 500 extended its rally by rising 3.4%. At the end of February the US market had recorded its worse six month period since 1932 by falling 42.7%. It has subsequently staged its best six month rally since 1975 by rising 38.8%. Economic and corporate news during August was generally supportive but concerns regarding the Chinese recovery and fears of policy tightening challenged the bulls.
- The June reporting period in Australia was mostly positive and was the predominant driver of market returns during August. Aggregate earnings were ~7.5% higher than expectations, and importantly earnings revisions were generally upgrades, suggesting that we may have seen the bottom of the downgrade cycle. Industrials fared better than Resources during FY09 with NPAT declining by 5.9% vs. pcp, while Resources NPAT was down 31.1% v. pcp. Accordingly, the All Industrials Index rose by 9.4% during August whereas the All Resources Index was only up 0.5%. Of the Industrials, REITs returned 14.1% during the month (largest monthly rally in 20 years) and Banks were up 13.1%.
- Employment was the most significant economic release during the month as the July jobs data provided further evidence of a relatively shallow downturn in the Australian economy. Employment actually rose in the month albeit with part-time gains outweighing full-time losses being the prevailing trend. The unemployment rate was unchanged at 5.8%.
- Bond markets were also mostly higher, breaking the traditional inverse trading relationship with shares. Australian 10 year bonds rallied 19bp to 5.42% despite positive economic data which continued to raise expectations of a rate rise by the RBA later this year. US long bonds also bucked the generally positive trend in macro data by rallying 8bp to 3.4% but there are no implications for or suggestions of a tightening bias by the US Federal Reserve.
- Of the agricultural commodities sugar was the standout performer, registering a 31% rally to a 28 year high on weather related concerns emanating from India (world's 2nd largest producer).
- The Australian dollar changed little during August against the USD and Euro despite increased talk of a rate rise. The AUD's largest move was against Sterling (+3.6%) which was weighed down by speculation that the Bank of England may seek to encourage lending growth by imposing negative interest rates on the balances that banks hold with it. The yen rallied 0.7% vs. AUD in response to the election of a new government.
- Base metals were generally firmer during August with LME Copper the best performer (up 13%), however spot iron ore prices retreated by 12.9% (Chinese fines) due to concerns about the potential moderation in the pace of China's reflation. The Baltic Dry Index, a measure of freight prices and regarded as a good barometer of bulk commodity demand, fell by 28% during August.
- Gold prices were little changed during the month – they have hovered around +/- 5% of USD950 for the last four months. Spot oil (WTI) rallied by 0.7% to ~$USD68, helped by a large fall in US inventories but its upside was also capped by concerns about China.
- The most significant news item during the month was the signing of a landmark trade deal between China and Australia by which China would buy $50bn worth of Australian natural gas from the proposed NW Shelf Gorgon development over the next 20 years.

Portfolio Activity

- The Fund continued to increase net exposure during the month of August, however as the market rallied aggressively we took some profits in the latter part of the month. This resulted in a net exposure of 82%. The gross exposure is slightly higher due to the Fund selling call options against selected core long positions and adding a small short position.
- There was no material change to the Fund's sectoral exposure. The preference for industrials over resources was retained, specifically via significant exposure to the major banks and consumer discretionary stocks.

Fund Performance

Period ending 31.08.09	1m %	3m %	1yr %	2yr % p.a.	Since Inception % p.a.
Total Return	8.60	16.68	-11.32	-2.09	-0.53
Benchmark *	0.27	0.79	4.77	6.17	6.26
ASX200 Accum. ^	6.57	18.94	-8.06	-11.20	-5.68

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 8.60% (post fees) in August. This is the best monthly return for Lodestar since inception and was mainly attributed to our holdings in the financial stocks and domestic cyclicals, such as JB Hi-Fi and GUD Holdings. Many stocks with weak investment metrics have also been rallying strongly as they are likely to return to profitability in FY10. However, some started to falter in late August. It remains to be seen exactly how profitable these deep cyclicals will be when the recovery is underway.

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Positive Influences

Company	August Return %	Fund Position %
National Australia Bank	15.8	5.4
ANZ Banking Group	13.9	5.2
Westpac Bank	11.7	5.0

- The large banks were major contributors to the market rally during the month. The portfolio benefited from large positions in NAB, ANZ and Westpac. The Australian economy has surprised on the upside over the past quarter, with both consumer and business surveys and employment data clearly showing that the bad and doubtful debt cycle will not be as severe as the banks had anticipated. This suggests that some excessive provisioning may be wound back which should be share price positive. The CBA result prompted most broking analysts to upgrade earnings across the industry.
- ANZ announced that cash earnings growth for the ten months ending July was slightly ahead of the previous corresponding period. The result was driven by margin improvement and better than expected income growth. In addition it seems that the momentum in bad and doubtful debts may have turned. In addition ANZ acquired selected Royal Bank of Scotland businesses in Asia for around US$550 million.
- Westpac's third quarter cash earnings of $1.1billion were in line with most expectations. Net interest margin was stable and income and impairment charges were in line with expectations. The bank commented that the merger with St George Bank was "progressing particularly well" and is on track to deliver $120m in synergies.
- NAB also followed the positive performance trend. It also agreed to purchase Challenger Financial's mortgage business for $385million at a discount to face value. The purchase includes a portfolio of around $4bn of residential mortgages.

Negative Influences

Company	June Return %	Fund Position %
Rio Tinto	-7.4	1.4
AGL Energy	-6.5	1.3
BHP Billiton	-1.5	1.3

- Rio Tinto produced an interim result of US$2.565bn which was well below market expectations of US$2.671billion. This was due to weaker than expected performance from the key iron ore, energy and minerals divisions. BHP Billiton's result of US$10.722bn (underlying) was slightly above consensus expectations. Its iron ore division result was also slightly disappointing but group cash flow was excellent.

Outlook

- The buoyant mood of equity markets continues. This is entirely consistent with the significant improvement in the flow of economic and investment data over the past few months. The activity data from China continues to remain unseasonally robust. Indicators such as Purchasing Managers Index (PMI), electricity generation and money supply data all point to a very strong economy. The U.S. reporting season has also been supportive of the recent share prices moves upwards. Global credit spreads have continued to improve and stabilise. Some U.S surveys are showing improvements in consumer sentiment and manufacturing activity. Commodity prices have stabilised at higher levels and the Australian dollar is demonstrating increased investor risk appetite by continuing to climb higher against the US dollar and on a trade weighted basis.
- The Australian corporate reporting season has just concluded and prompted earnings upgrades by many analysts, particularly for the 2011 financial year. Positive earnings surprises were driven by cost savings rather than income growth – a feature that also dominated the US reporting season one month prior. This sets up a powerful financial configuration for earnings leverage when a more synchronised recovery occurs.
- Another notable feature of the Australian reporting season is the conservative guidance provided by corporates for the ensuing 6 to 12 months.
- Last month we commented that many analysts had been reluctant to upgrade earnings prior to the reporting season, despite receiving significantly better economic news. We have now witnessed the reversal of an 18 month long trend of analyst downgrades. We anticipated this event and selectively increased the Fund's equity exposure which has benefited the Fund handsomely.
- The sharemarket has moved aggressively (i.e. the ASX200 Accumulation has risen 21% since mid July) and is pre-empting better times ahead. Thus the market (as usual) is forward looking but it can also run ahead of fundamentals, a point best illustrated by the fact that the majority of CEOs were reticent to issue guidance beyond FY10.
- A key aspect of the positive reaction the sharemarket took from the actual results from individual companies was that management guidance for the June half was set very low. This can be defended due to the fact that the economic environment was extremely fragile and unclear at the time the guidance was originally set by management. The economic recovery in the June half took some management by surprise. For instance, one company noted during the reporting season's presentations that if they had a March year end they would have guided for a small fall in earnings for the next financial year, instead by June their guidance had improved to be up 5% for the next twelve months. This company had just produced one of the better results in the industrial space and this guidance appears conservative. The take out of this example is two fold; management teams and boards of directors are remaining conservative because the market will remain extremely unforgiving to those companies that miss guidance and the economy/related industry has

come out of such a shock the recovery is still perceived to be very fragile.

- The key to the market at present, both in Australia and the U.S.A., is that now the market has recognised the good efforts by many management teams to lower costs since the global credit crisis took hold, there needs to be continued confirmation of the global and domestic economic recovery. This way revenue growth can produce the leverage to earnings given the leaner corporate structures now in position. Is this recovery guaranteed? Recently the Chinese Premier Wen Jiabao recently warned on the government's official web site that authorities can not be 'blindly" optimistic as a "decline in external demand may continue for a longer time'. This coming from the major source of global growth right now may not indicate that the recent moves by the sharemarket are risk free.
- In addition, recent falls in the Baltic Dry Index (global freight rates), spot coal, iron ore and steel prices do not suggest that momentum is improving for global cyclicals. There needs to be continued positive economic news from not only those stronger economies like China and Australia but there also needs to be a continuing momentum from those lagging economies like Japan, the U.S.A and Europe to ensure the current sharemarket rally can be sustained. In particular there needs to be signs that the consumers in these economies are returning to an improved consumption pattern. If the deleveraging of consumers continues this could lead to nervousness on the strength of the global recovery cycle. If this does occur a consolidation phase or a pull back could ensue until the profile of revenue growth can support valuations.

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