

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 (XJOAI) returned 3.7% in December and closed at a high for the month. The total ASX 200 return for calendar 2009 was 37%.
- The US S&P 500 Index rose 1.8% after trading in its tightest monthly band for two years. As expected the VIX index of implied volatility continued its gentle decline and closed the year at 21.7 compared with the 2009 average of 31.5. Macroeconomic data was mixed but with a positive bias; the highlight was better than expected employment data which prompted a surge in the USD as investors responded to evidence of a stabilising and potentially improving economy.
- Australia's Reserve Bank (RBA) raised cash rates 0.25% to 3.75%; its third consecutive rate hike which was unprecedented. Stronger employment data seemed to be the catalyst for the RBA's policy shift despite other releases such as consumer confidence and loan growth suggesting apparent economic softness. Q3 GDP data edged higher only due to the negative trade impact. Markets reacted to comments by RBA Deputy Governor Battellino that the RBA sets monetary policy with a view to rates faced by borrowers, not simply the cash rate. The current cash rate of 3.75% is therefore likely to be equivalent to the pre-crisis cash rate of 4.75% which suggests that monetary policy is in a "normal" but still accommodative range. The AUD/USD immediately declined towards 90c in response to Mr Battellino's comments. It is worth noting that "normal" in a monetary policy sense doesn't mean "neutral". In reality monetary policy has just shifted from an "emergency" setting to a "normal" setting hence the reaction in currency markets seemed over done. The AUD dipped below 88c before closing the month at 89.6c.
- Corporate activity continued in December with NAB announcing a counter bid to rival AMP's bid for AXA Asia-Pacific Holdings. Capital raisings also featured with Woodside Petroleum seeking A\$2.5bn from shareholders.
- Australian 10yr bond yields rose 40bp during December. Short end rates appeared to have little bearing on bond weakness. AUD softness may have been partly to blame for bond weakness, but US Treasuries were even weaker; The ten year yield rose 64bp as strong jobs data in November underpinned confidence in an economic recovery.
- The USD firmed against six major currencies and registered its best month since January (USD index +4%). The rebound was attributed to better economic data and concerns over the pace of Japanese and European growth. The AUD gained 51% from its February low to its November peak but the story was all about USD strength given that the AUD rallied v Sterling, Yen and the Euro.
- WTI oil corrected sharply in December and breached US\$70 but recovered and was up 2.7% by month end. Gold was down by 6% due to profit-taking after a four month winning streak and in response to the firmer USD.
- Spot iron ore prices remained firm with Chinese imported fines up 17% in December which is more than double

since March. India raised taxes on iron ore exports which added support. Base metals were higher. Copper was up by 6.4% after also doubling in 2009. Aluminium was up 10% as it shed concerns about excess inventory.

Portfolio Activity

- During December the Fund increased its net exposure from 68% at the beginning of the month to 78% by month end.
- The Fund increased its exposure to Materials and Financials. The derivative strategy on the Banks ran its course and profits were taken. This pushed weightings to Financials back up 3%. The balance of the remaining increase in net exposure was in adding to global cyclical stocks such as mining companies including BHP Billiton, Rio Tinto and Centennial Coal.

Fund Performance

Period ending 31.12.09	1m %	3m %	1yr %	2yr % p.a.	Since Inception % p.a.
Total Return	2.08	2.15	26.87	-1.55	1.68
Benchmark *	0.28	0.85	3.43	5.56	5.92
ASX200 Accum. ^	3.74	3.39	37.03	-8.16	-1.83

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 2.1% (post fees) in December which was much better than cash.

Positive Influences

Company	December Return %	Fund Position %
News Corporation	18.5	2.2
Centennial Coal	19.5	0.9
AXA Asia Pacific	12.3	1.4

- **AXA (+13.1%) /NAB (-4.3%)/ AMP (+9.6%):** NAB launched a bid to rival AMP's bid for AXA Asia-Pacific Holdings. NAB's bid was unanimously endorsed by AXA's board of independent directors.
- **News Corporation (NWS):** Was the best performer in the media sector as US investor confidence improved. It also benefited from the strong debut of "Avatar", the stronger USD (in Australian dollar terms) and comments from US broadcasters that "scatter market" rates were trading 20-30% higher than upfront levels.

Monthly Investment Report

Antares Lodestar Absolute Return Trust Australian Shares

Negative Influences

Company	December Return %	Fund Position %
Newcrest Mining	-4.0	3.9
Nufarm	-6.3	1.2
National Australia Bank	-4.1	3.2

- **Newcrest Mining (NCM):** Stronger USD, profit-taking and year end book-squaring prompted gold's decline by 8% though NCM fared better than most of its peers.
- **Nufarm (NUF):** Sinochem revised its proposed takeover offer from \$13 to \$12 per share which prompted NUF to terminate discussions with Sinochem and execute a MOU with Japan's Sumitomo Chemical in which the latter would acquire a 20% stake in NUF for \$14 cash via a tender offer. Following the offer, Nufarm is to undertake a \$250m capital raising.
- **National Australia Bank (NAB):** Declined after indicating that if their AXA bid was successful there would be a small capital raising to assist funding the acquisition.

Outlook

- The seasonal forces were alive and well in the later half of December and early January. All December quarterly's performance was achieved in the last two weeks of December. There is usually little news flow at this time of the year, however there are two pieces of news that are noteworthy at present.
- Firstly, the European Union response to the Greek economic situation. The budget deficit is running close to 13% of GDP in Greece with European Union limits of 3% normally prevailing. Greece's gross debt to foreign creditors has now reached 168% of GDP. The key event recently has been the statement made by ECB chief economist Jurgen Stark. He indicated that EU bail-outs are only ever available to countries that faced "difficulties"

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 1300 738 355 visit www.nabinvest.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.

beyond their own controls and this was clearly "not the case" for Greece. If this rhetoric is backed up with action (or lack of it) then the risk of defaults would be borne by global banks and insurance companies. This could cause another level of financial market dislocation, especially in the already sub-normal growth European Community. The outperformance of global cyclical in recent months may come under pressure if credit defaults (or the fear of them) stymie a key economic block's growth rate at a pivotal stage in the global economic cycle.

- Secondly, there has been interesting developments in China with respect to the Government's response to the "hot" property market and associated lending levels. Chinese banks lent an unprecedented 9.21 trillion yuan in the first eleven months of 2009. Premier Wen Jiabao stated on 27 December that it would be better if lending were not on such a large scale. Apparently China's Banking Regulatory Commission has recommended a range for lending this year between 7 trillion and 8 trillion yuan. Thus if policy works, this means a fall in lending of at least 11% for 2010. China in particular has been the key economy that has helped reverse the perilous decline in world growth rates in 2008. It is now Australia's second largest trading partner and a maturation of its economic growth rate is not a positive development for Australian and world growth. This potential outcome places increased importance on major OECD economies resuming more "normal" 2010 growth rates and any developments that compromise this will likely have an amplified impact on equity valuations. In this context, the previous observations on Greece have a magnified importance especially if the lack of EU support is not forthcoming for other nations.
- As stated in last month's commentary, the key to this year's sharemarket performance outside macroeconomic forces is likely to be individual companies' earnings performance. The valuation multiple expansion phase has now come to an end. At this stage of the investment cycle, total returns are driven largely from actual earnings and commensurate dividend flow.