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Monthly Investment Report

Antares Lodestar Absolute Return Trust Australian Shares

Market Review

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- The ASX 200 Accumulation Index (XJOAI) rallied 1.8% in November during a reasonably directionless month characterised by relatively low turnover and a tight trading range. The MSCI World (ex Aus) Index rose by 1.6%. The US market performed much better, with the S&P 500 closing above the 1,100 barrier for the first time in over a year and posted a monthly return of 5.75%.
- US equities recouped their October losses as Q3 earnings continued to deliver positive surprises, with 80% of companies beating broker forecasts. The Materials sector performed well, albeit assisted by a weaker USD as Financials lagged. Healthcare stocks also performed well (+9%) despite their defensive characteristics.
- Relatively stable Australian economic data releases were offset in late November by the re-emergence of investor risk aversion as a result of state controlled Dubai World requesting a standstill on debt repayments of USD26bn. In response, equity markets fell heavily (FTSE -3.2%, ASX200 -2.9%) in late November but had reversed the losses by month end, as it appeared to be contained and unlikely to materially impact global growth or market stability.
- Australian employment data was strong with job growth of 24.5k in October, which assisted consumer confidence despite two consecutive monthly interest rate hikes by the RBA. September retail sales were flat following strong growth over the first half of CY09.
- September housing finance data showed acceleration in applications as first home buyers raced to receive the full benefit before it was scaled back. The strong finance data for new homes reinforced this view as it rose by 8% mom. Building approvals rose 0.3% in September and are up by 30% CY09 to date.
- Housing prices rose 1.4% in October – the equal strongest month on month gain since June 2007. Prices have risen by 10% CY09 to date, which is 6% higher than the previous peak in February 2008.
- Inventories rose by 0.8% in Q3 after a 3.1% fall and added a larger than expected 1.9% to Q3 GDP. This was mainly led by mining stocks.
- Company profits fell by 2.1% qoq in Q3 which was weaker than the market was expecting. Annual profits are down by 19.6% post the commodity peak of the commodity boom but excluding mining, corporate profits have risen over consecutive quarters (+1.5%qoq).
- Overall, the economic data is showing mixed signals – it appears that Q3 GDP (to be released on 16/12/09) should be stronger than previously expected due to a rebound in output and inventory re-stocking, while corporate profits are re-basing. However, it is also apparent that the private sector has softened (i.e. weaker Q3 retail and private capex) while credit appetite remains subdued and wages growth is weak. The dilemma is that the data have moderated from the H109 policy induced strength, suggesting that a pause in tightening could occur, but the cash rate is still at an emergency setting, i.e. 3.5% is below usual recessionary levels, given that bottom line growth is likely to remain positive, housing and personal credit growth is now picking up and house prices are 10% higher ytd. On balance, with equity markets recovering and Dubai risks fading, it is not surprising that RBA raised rates for an unprecedented, third consecutive month on 1 December.
- The Australian 10 yr bond yields lost 30bp in November, the largest monthly decline since December 2008. The bond market looked through strong employment and housing releases as the November 25bp hike by the RBA was widely anticipated. US Treasuries also rallied with the 10 yr bond yield shedding 19bp.
- US dollar weakness dominated currency markets again in November. The USD broke its January low against the yen and now looks to 1995 for its previous trough. Weak labour market data, mixed signals on consumer confidence and dovish comments from the FOMC contributed to the weakness. The AUD rose 1.5% v USD but was mixed against other cross rates.
- Crude oil (WTI) edged up 0.4% to $77.28 as US inventory levels remained stable at quite high levels.
- Gold rallied for the 3rd consecutive month to mark new record highs, closing up 12.2% on the month to US$1172, and 23% above its August close. Gold's strength partly reflects the demise of the USD but it also rallied in Euro terms and broke the Feb high of €775 to close at €783. News that the Indian central bank has bought 200 tonnes of bullion from the IMF also assisted sentiment.
- Spot iron ore prices were strong in November as Chinese inventories continued to fall from their September highs. Chinese fines imports rose by 14.9% over the month. Base metals were generally firm, led by copper with a gain of 5.7%, reflecting anticipated ongoing Chinese demand and a weaker USD.

Portfolio Activity

- During November the Fund increased its net exposure from 60% at the beginning of the month to 68% by the end of the month.
- The Fund increased its exposure to Materials and Healthcare. Large positions in the financials were mostly retained, however in light of selected significant share price appreciations and as most of the major banks go ex dividend in early November it was deemed prudent to buy put options (which provides the right but not the obligation to sell at a pre-determined price in the future) over the majority of these financials. This assisted in mitigating the downside potential in these stocks as nervousness surrounding the global impact of a possible default of USD26bn in debt by Dubai World (the state-controlled holding company) emerged late in November and prompted global bank sector weakness.

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Fund Performance

Period ending 30.11.09	1m %	3m %	1yr %	2yr % p.a.	Since Inception % p.a.
Total Return	0.85	4.08	22.49	-2.59	0.97
Benchmark *	0.28	0.82	3.75	5.72	6.00
ASX200 Accum. ^	1.78	5.88	31.72	-11.06	-3.19

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 0.85% (post fees) in November and has generated a small positive return over the past two months as the market has consolidated post reporting season. During this period the share market fell 0.30% with greater volatility. The fund's performance was attributed to a diverse range of stocks including Newcrest (Gold and Copper producer) and AXA (financial services company under takeover).

Positive Influences

Company	November Return %	Fund Position %
Newcrest Mining	13.0	3.7
Axa Asia Pacific	31.3	1.3
JB Hi-Fi	10.9	2.6

- **AXA (+36.8%)/AMP (+3.9%)**: AXA Asia Pacific received an unsolicited and conditional scheme proposal from AMP and AXA SA. The cash and scrip offer valued AXA at $5.34 at time of announcement versus a previous close of $4.30. Under the proposal AMP would acquire all of the shares in AXA APH including those held by AXA SA and the Asian operations of AXA AP would be sold to Axa SA.
- **Transurban (TCL) (+19.7%)**: rose strongly in response to a conditional, non-binding proposal form Canada Pension Plan Investment Board (CPPIB) and Ontario Teachers Pension Plan (OTPP). If successful, would involve change of control through scheme of arrangement. Subsequent releases from CPPIB and OTPP indicated the bid price was $5.25
- **JB Hi Fi (JBH) (+19.2%)**: AGM update - Q110 comp store sales were +8.4%, up from 3.8% in July/Aug. Upgraded new stores openings target increased from 18 to 22, with 15 pre-Xmas. JBH is also a beneficiary of the high AUD. Recent company updates to the market prompted us to upgrade FY11 eps by 3.7% to 140c. JBH continues to be a beneficiary of consumer led recovery, i.e. buying of electronics, home entertainment (hardware and software), music and games. The aggressive store roll out program is underpinning earnings growth for at least the next few years and JBH should deliver CAGR (FY09 - FY12) of 23%.
- **Newcrest (NCM) (+13.9%)**: in response to gold reaching a record high and ongoing strength in copper.

Negative Influences

Company	October Return %	Fund Position %
Graincorp	-12.3	2.3
Westpac Banking Corp	-6.4	1.3
Programmed Maintenance	-7.2	1.0

- **Westpac (WBC) (-8.4%)**: FY09 result indicated an improved operational environment but there is still uncertainty in global markets. WBC expects credit growth to remain subdued, average funding costs to increase further due to intense competition for retail deposits and wholesale funding rolls over at a cost well above pre-crisis levels. Seeing similar key trends to others banks, i.e. strong margin benefits, lower bad and doubtful debt expenses offset by higher costs and lower than expected asset growth. WBC Tier1 is 8.1%, the bottom end of its peer group.

- **Graincorp (GNC) (-11.5%)**: – Despite reporting a solid FY09 result, in line with guidance provided at the recent capital raising, GNC was sold down due to concerns over an anticipated poor finish to the harvest season. There is also some indigestion re the United Malt acquisition.

Outlook

- The market has been consolidating since the end of the Australian June half reporting season. The theme mentioned last month that the market had run ahead of the economy seems to have been borne out. As a result Australian economic data has continued to be positive enough for the Reserve Bank to keep tightening monetary policy for an unprecedented three consecutive months. Consequently, the market has become fairly valued based on our bottom up forecasts.
- Thus if company guidance and economic conditions continue on the current trajectory a seasonal rally should not be discounted. If the market is to function on its internal metrics of robust economic conditions with very strong economic performances from most of our Asian trading partners (in particular India and China) the immediate outlook should be bullish for equity markets.
- However the international scene outside this time zone is less clear. The US economy is improving in a second derivative sense with many indicators becoming less negative. The economy is still dogged with poor consumer sentiment, very high unemployment, poor house prices, high oil prices and continued deleveraging of both corporates and consumers. Euro zone and Japan are not faring any better.
- The falling US dollar is a very important fillip for the US recovery. It will improve the competitiveness of this economy and stimulate jobs growth as well as corporate profitability. Technically, it could cause an up tick in

inflation, especially in the context of current monetary and fiscal policy settings. Given the recent fear of a potential deflationary spiral or significant deflationary pressures dominating the U.S economic thinking this risk is not being given much credence at the moment.

- The economic and investment cycle has now reached a point where the "hope" of recovery is now being replaced by an actual recovery, endorsed by reported earnings growth. Good analysis by Haver Analytics and Goldman Sachs on the breakdown of earnings growth and valuation metrics at different points of the cycle has been published. The analysis suggests that during the "hope" phase valuation multiples expand with little to no actual earnings growth being present. This is when markets bottom prior to the economic conditions. This phase was clearly underway from March until November2009.
- It can be argued that from now on the market is or soon will be entering the growth phase. In this phase the earnings come through and gradually the "hope" multiples fade back to more mid cycle, or normal, earnings multiples. Thus a major theme that was highlighted in last month's outlook is that the market will now move back towards individual stock picking based on superior earnings rather than a broader theme of backing macro economic cycles such a cyclicals versus defensives. Some cyclicals will perform strongly and some will not. Likewise some defensives will produce strong relative earnings. It will be the relative earnings contribution that will dominate superior stock selection outcomes ie. alpha generation.