

Monthly Investment Report

Antares Lodestar Absolute Return Trust Australian Shares

Market Review

John Morgan, Chief Investment Officer
Lodestar Capital Partners

- The Australian sharemarket fell 7.5% in May and is now down the same amount calendar year to date. World markets were dominated by the growing concern of the Eurozone sovereign debt problems. The S&P500 fell 8%, Japan's Nikkei -12%, Shanghai Composite -10% and the Hang Seng -6%. It was the worst general decline since October 2008.
- Australia's Resource sector was weak (-6.2%). The prospect of a cooling Chinese economy and the dismay over the Federal Government's proposed Resources Super Tax weighed on the sector. Banks were even weaker (-12.2%) after downgrades occurred post interim results after holding up in a weakening market prior to the interims.
- After a year of near continuous corporate earnings upgrades, the market began receiving some downgrades. Brambles, Sonic Healthcare and Virgin Blue were amongst the higher profile announcements.
- Australia's Reserve Bank raised the official cash rate 0.25% to 4.50% at its May meeting. This is the sixth rate hike in seven meetings. This historically aggressive stance reflects the removal of "emergency settings" and Australia's strong terms of trade.
- Australia's employment data showed continued jobs growth but consumer confidence slowed in response to the higher official interest rates.
- The domestic ten year bond yield fell 34bp to 5.37%. This was the lowest monthly close since November 2009. Other major bond markets had similar moves. This reflects rising risk aversion in global markets and "fiscal retrenchment" on growth prospects, particularly Europe.
- Currencies were very volatile with the AUD falling 8.2% against the USD. The Euro also came under pressure falling 7.4% against the USD.
- Commodity prices were weak. The oil price fell 14% and at one stage got to \$65 per barrel, a price not seen since July 2009. Gold rose 3.3% to US\$1218 per ounce. Spot iron ore reversed recent gains. Base metal prices saw weakness with Copper down 6.6% and Aluminium down 6.7%.

Portfolio Activity

- The market exposure of the Fund declined. This was achieved by reducing the exposure to Resource and Bank shares.
- In addition with the market falling significantly, the level of derivative protection increased.

Fund Performance

Period ending 31.05.10	1m %	3m %	1yr %	2yr % p.a.	Since Inception % p.a.
Total Return	-2.93	-2.26	18.03	-5.16	-0.06
Benchmark *	0.38	1.11	3.75	4.87	5.73
ASX200 Accum. ^	-7.51	-3.54	20.80	-7.35	-3.95

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's defensive stance has paid off in the month of May. There was a fall in the unit price of 2.9% and this was disappointing, however this was not nearly as significant as the market's fall of 7.5%. The Fund made significant money on derivatives over the month.
- This was the worst May performance by the Australian sharemarket since 1984.
- Since the FY09 reporting season, despite two solid reporting periods, the sharemarket is down 4.1% (including dividends) and the Fund is down 0.7%.
- The Fund's volatility has continued to decline throughout 2009 and into 2010. Volatility remains closer to domestic government bonds than the equity markets.

Positive Influences

Company	May Return %	Fund Position %
SPI Put Options	Significant	9.3
SPI Futures	-7.9	-3.8
Resmed	5.7	1.4

- **ResMed (RMD):** RMD produced a strong 3Q10 result. Revenue growth and margin expansion were above expectations. In addition, the falling Australian dollar (versus the US\$) provided a further tailwind for the stock given it's strong US presence.

Monthly Investment Report

Antares Lodestar Absolute Return Trust Australian Shares

Negative Influences

Company	May Return %	Fund Position %
Westpac	-14.2	2.6
National Australia Bank	-12.8	2.4
Rio Tinto	-7.1	2.1

- **Westpac Banking Corp (WBC) and National Australia Bank (NAB):** WBC and NAB both reported 1H10 results in early May. Both results were roughly in line with market consensus at an aggregate level however the composition disappointed the market. Poor credit growth in both corporate and housing sectors and the cost of funding pressures weighed on market forecasts.
- **Rio Tinto (RIO):** Along with the rest of the Australian exposed Resource names, RIO performed poorly due to the proposal of a new tax on mining companies. The proposed tax not only created significant doubt over projects sitting within the industry pipeline, but also cast doubt over the valuations of established projects. While the proposed tax has a number of hurdles to clear before any eventual outcome, the level of uncertainty of what would eventually transpire was enough for markets to shun any domestically exposed miner, with the price action being savage.

Outlook

- Global share markets have begun capitulating under pressures from the Euro-zone sovereign debt crisis. May was the worst monthly performance for world share markets since October 2008.
- Portugal and Spain have suffered credit rating downgrades. Given the possible precedent posed by the Greek Government's dilemmas, there remains significant concern that the bailout packages from the EU and IMF may not necessarily resolve the economic fallout. The German and Spanish Governments have passed austerity packages to ensure fiscal stability. These packages are unlikely to be palatable to voters and political pressures will remain a feature of future policy settings. In addition the predominant concern is that tightening fiscal policy at a time when continued expansionary policy is required mounts pressure on Euro-zone GDP forecasts for the next few years. The benefits of the low Euro have already been reflected in recent Industrial Production statistics (particularly in Germany) and the low Euro is becoming an economic imperative as opposed to a source of concern.
- Growth from the already strong economies of China and India remains excellent, albeit the momentum is maturing. Australia, the beacon of economic stability within the OECD, produced annual GDP growth of 2.7%. This growth rate was assisted by government stimulus (both fiscal and monetary). This stimulus tailwind remains in

place in the form of fiscal policy however Australia's Reserve Bank has now removed its "emergency settings" and is progressing towards actually slowing the economy down through higher official interest rates. The RBA has now tightened on six occasions in eight meetings. This is one of the most aggressive sequences of official interest rate hikes Australia has seen. Lodestar is of the view that a pause should and could be seen in the near term, especially with the growing turmoil internationally and the uncertainty associated with the Resources Super Profits Tax (RSPT) initiative.

- The US economy is staging a recovery though at a muted pace versus the recovery seen from previous post war contractions. Activity reports (ISM Manufacturing and Services), GDP and corporate profits are all improving. Housing (activity and pricing), consumer borrowing and unemployment remain at extremely poor levels.
- Presently Australia's sharemarket expects 27% earnings per share growth for FY11. The sectors expected to produce the highest growth are Energy, Metals & Mining and Financials. Resource sector earnings upgrades have been stopped in their tracks by the Rudd Government's RSPT. Recent bank results were dominated by trading profits and lower credit costs. This boost to earnings does not have a long duration to it. In addition system credit growth rates are continuing to run at sub-par levels and retail banking competition remains fierce. We have started to see profit warnings spreading across a wide range of industries. Sectors such as Healthcare, Airlines, Logistic, IT and Retailers have all warned of deteriorating earnings metrics.
- The fragile nature of the global recovery and the high earnings hurdle are likely to create an environment where if doubts of the projection of the economic recovery come into play (and thus the level of earnings), then equity markets will correct as they did in January, early February and now in early May. If the recovery continues as anticipated, equities will be supported. Therefore the action of equity markets will continue to be saw-toothed as the cycle unfolds. The likelihood of the flow of both positive and negative news is high given the current economic and political settings. This has been highlighted recently with the significant swings in currencies such as the Euro and Sterling, which have become volatile on the back of unsystematic risks (Greek default and a hung Parliament, respectively). Not only active stock picking but active allocation and protection of capital will be a feature of this year.
- The Australian sharemarket has been caught in a trading range between 4,200 and 5,000 since September 2009. Thus in nearly eight months the capital gain from the market has been zero. This saw-tooth action from the market is very likely to continue into the second half of the calendar year.

Monthly Investment Report

Antares Lodestar Absolute Return Trust Australian Shares

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.