LODESTAR
CapitalPartners

Lodestar Australian Strategic Share Fund
Monthly Investment Report

November 2011

Lodestar Capital Partners Pty Ltd is a dynamic specialist Australian equity manager, founded in 2005. Lodestar's focus is on delivering sustainable investment returns over the long term by applying its extensive experience and skills, within a nimble structure that enables it to seize opportunities.

Market Review

John Morgan, Chief Investment Officer, Lodestar Capital Partners

- The S&P/ASX 200 Accumulation Index fell over the month of November by 3.5%, giving back some of the previous month's gain. The S&P/ASX200's biggest sectors both lagged the broader sharemarket index, with Banks down 4.6% and Resources 6.5%, while more defensive sectors such as Healthcare (+2.2%) and REITs (+2.6%) outperformed.
- The MSCI World Index (USD) suffered a 10 day losing streak for the first time since February 2009. After tracking for a sizeable loss over the month, the S&P 500 finished the month almost flat with a final day rally of 4.3% following a move by six major Central Banks to lower the cost of USD funding.
- In Australia the Reserve Bank cut its cash rate from 4.75% to 4.5%, the first reduction since April 2009, citing global uncertainty. Meanwhile the Australian Government's mid-year budget review reiterated the target of a budget surplus in 2012/13 despite a shortfall in revenue this year.
- The European debt crisis continued as the chief source of global uncertainty with Italian 10 year bond yields breaching 7% for the first time and the prime ministers of both Italy and Greece being forced to step down. The latest rescue package put forward by the EU in late October was quickly discounted by markets as nothing more than a stop gap measure whilst Portugal, Hungary and Belgium all saw downgrades in their sovereign ratings over the month. As a consequence the European Central Bank lowered its key rate by 25bps to 1.25%.
- In the USA, a US Congressional joint committee failed to reach agreement on a package of deficit reduction measures, which triggers expectations of automatic cuts in spending in 2013 post the next US presidential election.
- China continues to slow with increasing evidence of economic weakness. The People's Bank of China cut reserve requirement ratio by 50bps to 21% for large financial institutions whilst forecasters continue to wind back growth forecasts. China's PMI for the month was worse than expected.
- Banks' reported earnings were in line with forecasts but did highlight difficult funding markets as a consequence of the European situation. AGM season continued with the majority of companies indicating that the operating environment, outside mining investment, remains challenging. Over the month BlueScope Steel launched a four for five renouncable rights issue to strengthen its balance sheet whilst Fairfax Media completed the public offering of Trade Me, its New Zealand online subsidiary. Computershare announced regulatory approval to proceed with the acquisition of BNY Mellon Shareholder Services Business. Also over the period, major global financial derivatives broker MF Global collapsed.

Fund Performance

Period ending 30.11.11	1m %	3m %	1yr %	2yr % p.a.	3yr % p.a	Since Inception % p.a.
Total Return	-3.31	-3.76	-7.17	-5.37	3.13	-1.74
90 Day Bank Bill*	0.39	1.20	5.01	4.79	4.44	5.49
S&P/ASX 200 Accum^	-3.48	-2.83	-5.99	-2.25	7.97	-2.80

Standard Deviation#	
Fund	10.27%
S&P/ASX 200 Accum	14.51%

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 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.

Rolling 3 year annualised using monthly returns.

Inception date 1 March 2007.

- The Fund returned -3.3% for the month of November, outperforming the S&P/ASX 200 Accumulation Index.
- Over the month the net market exposure of the Fund was reduced from 92.1% to 73.5%.
- The Fund's exposure to Metals and Mining was reduced from 21.7% to 14.9% over the period on concerns as to the global growth outlook and its impact on demand for commodities.
- Exposure to the Insurance sector was decreased via the introduction of a short position in QBE.
- Health Care was reduced with the sale of the holding in Ramsey Healthcare.
- The Media weighting was increased via purchases and a placement in Fairfax Media following the successful spin off of New Zealand based Trade Me and the sell down by the Fairfax family.
- Exposure to the Chemical sector was reduced as the Orica holding was cut from 1.9% to 1.0%.
- An Index put position was introduced as the European position deteriorated.

Positive Influences

Company	November Return %	Fund Position %
NRW Holdings	17.5	1.7
Northern Star	54.4	0.4
Transpacific	4.0	1.0

- NRW Holdings performed strongly over the month after they upgraded their full year guidance, forcing sell side analysts to increase their forecasts in the order of 15%.
- The Fund took profits in Northern Star Resources during the month as the share price spiked on the back of exploration drilling results from the Paulsen's Gold Mine in Western Australia.
- The Fund participated in a placement of Transpacific, at 62 cents, issued to strengthen a stretched balance sheet. Simultaneously, the company refinanced its debt facilities with a longer duration and lower interest rates. The stock rallied strongly and the position was exited.

Negative Influences

Company	November Return %	Fund Position %
SMS Management	-15.7	1.7
ANZ Bank	-3.3	7.9
Lend Lease Corporation	-6.3	3.2

- SMS fell as the market downgraded the earnings outlook for the company by about 5% on the back of delays in workflow from the NSW Government.
- The Banking sector in general underperformed. Major events included the release of profit results and a regulatory update from the Australian Prudential Regulatory Authority on the proposed implementation of the Basel III liquidity standards. However, the key issue facing the sector over the period was escalating events in Europe regarding sovereign debt and flow on concerns that domestic banks could be locked out of funding markets and face higher funding costs.
- Lend Lease underperformed over the month on concerns over US and European construction markets. We believe the stock remains undervalued with a strong forward workload, and further we expect positive news shortly on tenants for the first two towers at Barangaroo will act as a catalyst for the share price.

Outlook

Whilst the Australian market continues to represent excellent long term value, with the S&P/ASX200 trading on a PE ratio of only 10.8x at November end, the domestic environment remains very challenging. Company guidance is still trending lower, particularly from domestic cyclicals, and earnings forecasts continue to be reduced. In the December meeting, the Reserve Bank cut the cash rate by 25bps to 4.25%, making the first back-to-back monthly cut since April 2009.

However the market's prime focus will remain on what happens next internationally.

Europe obviously will remain the key with the looming meeting of Euro leaders now crucial as to the regions' direction. Crucially the region's stronger nations are increasingly appearing to be shaping this direction. German Chancellor Angela Merkel has confirmed, despite markets wishes, that there will be no common Eurobonds debt issuance which would have allowed indebted nations to access the security of stronger nation's solid economies and borrow at a lower cost. For now, national sovereignty will prevail. Instead it is expected she will articulate her vision for how the region's indebtedness can be solved with some form of a Euro fiscal integration. This longer term solution will likely be more viable but it will take time to occur. However after the failure of a number of short term solutions, such a plan may appeal to markets.

Pleasingly on the other side of the Atlantic, the US economy continues to improve. The economy clearly will not slide into a recession with ISMs, at five months' high in November, consistent with an annual GDP growth of 2%-2.5%. Employment numbers continue to improve with unemployment at a two and a half year low of 8.6% and construction spending, both residential and non-residential, continuing to improve. This gives us confidence in increasing our weightings to stocks with US exposure.

The Chinese economy continues to slow and this will have a negative impact on demand from the Australian resource sector, though stimulus has begun to occur in recent weeks.

In conclusion, we remain of the opinion that whilst the Australian market is excellent value, some form of resolution for the European debt crisis is still the key hurdle to jump before equity markets can rally strongly. We believe the Euro region is now moving towards more viable long term solutions for their problems, and are also heartened by the continuing improvement of the US economy which is critical to global growth.

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