

Monthly Investment Report

Antares Lodestar Absolute Return Trust Australian Shares

Market Review

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- The ASX 200 Accumulation Index gained 2.16% in February but lacked conviction as investors assessed the consequences of potential sovereign default risks emerging in Europe and slowing Chinese economy against a backdrop of generally better than expected reported earnings in the US, Europe and Australia.
- Australia underperformed the US equities which rose 2.7%, but outperformed the FTSE 100 (+1.7%) and Europe (Euro Stoxx down 3.3%) which struggled with concerns over the Euro and a sluggish economic recovery. Asian results were diverse, the MSCI Asia ex Japan Index gained 0.5% during February.
- Major economic releases in Australia were mixed. Our unemployment rate fell 0.2% to 5.3%, the Westpac – Melbourne Institute Consumer Confidence Index fell 2.6% in February, December retail sales fell by 0.7%, December housing finance commitments declined by 5.5% mom following a 6.1% fall in November. House prices jumped by 5.2% qoq in 4Q09, following consecutive 4% rises in preceding quarters. The annual house price rise was 13.6%.
- US data was also mixed with the ISM Manufacturing Index rising to 58.4% in January, up from 54.9%. The US unemployment rate fell from 10% to 9.7% while the trade deficit widened to its highest level in a year, reaching USD 40.2bn versus expectations of USD 35.8bn. The Consumer Confidence Index was unexpectedly weak in February falling to 46 (versus expectations of 55) from an upwardly revised figure of 56.5 in January. This was the lowest reading for ten months.
- In Australia, February was dominated by the 1H10 company reporting season. 44% of companies exceeded expectations and ~38% missed. Outlook statements were either guarded or conservative.
- The US Q409 earnings season delivered positive earnings surprises, with 90% of companies reported performance exceeding analyst forecasts. However the US equity market's performance was uneven. The VIX (measure of implied volatility) averaged 22.5 in February, up from January's 17.6 low. This may be attributed to mixed economic signals continuing to obscure the strength of the US economic recovery, though it is significant the sharemarket showed a cyclical bias, with Materials up 4.2%, Industrials up 4.2% and Consumer Discretionary up 5%.
- The USD continued its appreciation against the Euro given sluggish European data and Greece's fiscal problems. It was little changed against the AUD (+0.7%) and Yen (+1.5%).
- Ten year bonds edged a little higher in Australia (5.44%) but the RBA's decision to leave cash rates unchanged had marginal effect on the long end of the yield curve.
- Gold rallied 2.5% in February and in Euro terms it reached a record high (€825). The IMF announced it had not found a buyer for the remaining 191m tonnes it wishes to sell.
- Spot iron ore prices rallied in February despite ongoing signs of monetary tightening and Chinese New Year. Base metals recovered from a weak start to the year with copper rallying by 3.7%, being the strongest of the LME base metals.

Portfolio Activity

- During February the Fund decreased its net market exposure from 50% to 45% at month end. This move was consistent with the risks Lodestar saw developing in global markets. Essentially, the announcements from China in relation to tighter monetary policy unsettled markets. This was further exacerbated by the Obama Administration's stance on the degree and structure of leverage within the banking industry amid Greece's increasingly precarious sovereign financial position.
- The main change to the portfolio was the continued reduction to the Global Cyclical component of the portfolio from 19% to 15%. A derivative strategy using S&P/ASX200 Index put options was also implemented in order to protect capital. There was also an increase in weightings to Financial stocks.
- Lodestar's net market exposure has now moved to the lower end of its historic range to reflect the potential risk to capital within current global settings. The exposure to domestic oriented stocks is largely unchanged.

Fund Performance

Period ending 28.02.10	1m %	3m %	1yr %	2yr % p.a.	Since Inception % p.a.
Total Return	1.08	-0.57	26.96	-2.09	0.70
Benchmark *	0.33	0.98	3.50	5.30	5.83
ASX200 Accum. ^	2.16	-0.56	44.70	-4.44	-3.11

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 1.08% (post fees) in February. The defensive action taken during January was maintained in February. This caused the Fund to under perform as the sharemarket bounced back. Given the global risks that were unfolding, it was deemed prudent to hold a conservative stance. The Fund's risk profile has been reduced.
- The Fund's strong Sharpe and Sortino ratios show the Fund's strong risk adjusted return profile. The Fund's volatility has continued to decline throughout 2009 and into 2010. It remains closer to Australian government bonds than it does to the Australian equity market's.

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Positive Influences

Company	February Return %	Fund Position %
Ramsay Health Care	9.9	2.1
BHP Billiton	4.2	4.7
Westpac	9.1	4.3

- **Ramsay Healthcare (RHC):** The 1H10 result was in line with January's management guidance of core net profit growth of 18-20%, however it was achieved via margin improvement as opposed to top line growth, hence RHC shares continued to rally and closed the month up 9.9%.
- **Westpac Banking Corporation (WBC):** A trading update indicated that 1Q10 cash profits are up 33% to \$1.6bn, largely driven by lower provisioning charges. WBC also noted improved conditions, revenue momentum and flat margins. Westpac's Tier One capital position remains strong at 8.5%.
- **BHP Billiton Ltd (BHP):** BHP's results were broadly in line with expectations and is a beneficiary of tight coal and iron ore markets. Recently BHP and Vale extolled the virtues of spot pricing for iron ore which highlights potential earnings upside for the diversified resource company.

Negative Influences

Company	February Return %	Fund Position %
Austar	-12.9	1.7
National Australia Bank	-3.6	3.3
Downer EDI	-5.1	1.4

- **Austar (AUN):** The FY09 result indicated weaker subscriber growth throughout the year particularly in Q409 where residential subscribers increased by only 1,000 despite November's HD product launch. AUN continues to accumulate cash and is committed to capital management though this is dependent upon debt refinancing.
- **National Australia Bank (NAB):** NAB's 1Q10 update highlighted cash profit growth of 18% to \$1.1bn, however management's commentary regarding revenue growth disappointed the market. NAB flagged flat revenue growth and numerous headwinds remain (eg. further fee cuts, competition and funding cuts). Bad and doubtful debts improved with management noting 3Q09 appeared to be the peak of the bad debt cycle. NAB's Tier One capital position remains strong at 9.3%.
- **Downer EDI (DOW):** The interim result disappointed the market by delivering lower revenue and EBIT margins than expected. FY10 NPAT guidance of ~5% growth was reconfirmed by management but consensus estimates were higher. The Mining division produced a strong result but this was neutralised by a soft Engineering result.

Outlook

- The risk profile of global growth forecasts have risen since December. Generally, economic statistics are mixed but continue to point to recovery. However developments in China and Europe give the progress of this recovery a fragility that exacerbates the already unsteady configuration of the government stimulated US economy.
- Growth from the already strong economies of China and India remains excellent, although the momentum of recovery 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 will remain in place in the form of fiscal policy, however Australia's Central Bank has now removed its emergency settings and is progressing towards actually slowing the economy down through higher official interest rates. Nearly all economic data is robust and consumer and business sentiment remains at very buoyant levels.
- The European economy continues to lag other regions with the level of government stimulus below other economic zones. This may change with the potential bail-out of Greece. At the time of writing, there is a growing expectation an EU package will be forthcoming with obligations attached to the Greek Government to rein in debt levels. It remains to be seen if this dilemma spreads to other regions in the Eurozone. ECB monetary policy has maintained its historic conservatism relative to other regions.
- The US economy is staging a recovery, though at a muted pace versus the recovery seen from other severe post war economic 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.
- The current valuations of equity markets such as USA, UK and Australia are all approximately at fair value. This holds for the absolute forward Price Earnings multiples or relative to ten year bonds. However the quantum of earnings growth expected is large. For example the earnings per share growth required to meet this "fair value" statistic in the US market is 30%, 33% for UK and 27% for the Australian market.
- Australia's reporting season has just concluded with the vast majority (85%) of companies reporting "in line" with market consensus. The number of companies that exceeded expectations or disappointed was evenly weighted. This hides the fact that there were upgrades prior to reporting season which actually makes this statistic more robust. In this context it is an encouraging sign to see that the sharemarket received upgrades to consensus earnings for financial years 2010, 2011 and 2012. This is particularly important given the high hurdle the market has set for current valuations to be justified.
- At this stage the market expects earnings growth of 27% for FY2011. The sectors expected to produce the highest growth are Energy, Metals and Mining, and Financials. The sectors that are expected to produce the most modest growth (not one sector is expected to produce negative growth at this stage) are Telecommunications,

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REITS and Insurance, in that order. The key to this year will be having exposure to those stocks delivering the best relative growth on a risk adjusted basis so as not to compromise the valuation settings.

- 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 and early February. If the recovery continues as anticipated, equities will be supported. Therefore the action of equity

markets will be likely to be saw-toothed as the cycle unfolds. The likelihood of the flow of both positive and negative news is very 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 (potential Greek default and hung Parliament respectively). Not only active stock picking but active allocation and protection of capital will be a feature of this year.

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