

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 6.24% in September, which was its seventh consecutive monthly rise. It has now rallied from its March low by 54%.
- Despite the forbearing of a weak September, Australia outperformed the US S+P 500 (+3.6%) and the global MSCI ex Australia Index (+3.5%) but underperformed the regional MSCI ex Japan Index which rallied by 9.4%. In USD terms the Australian market performance was even more significant due to a 4.6% rise in the AUD which continued to benefit from expectations of higher short term rates and from strong offshore investment flows.
- Financials led the XJOAI performance for the second consecutive month (+10.4%) supported by the belief that the loan loss cycle will be mild, and REITs (+9.5%) gained from M&A activity and asset transactions. Resources (+2.4%) lagged as commodity prices broadly retreated in AUD terms. Defensives such as Telcos were only up 0.3%.
- Despite most industry pundits anticipating an equity market correction, the global economic rebound appears to be more enduring. Although doubts remain about a synchronised US economic recovery and the pace of a European revival, the equity markets are responding favourably to the significant deleveraging of corporate balance sheets, more favourable employment data, the positive effects of fiscal and monetary stimuli and their regenerative impact on corporate earnings.
- Over USD50bn of equity capital has been raised in Australia since January 1, 2009 which is a record for this decade. Dividends have been cut by almost 25% in aggregate since June 2008. This de-gearing has resulted in current average gearing [net debt/ (net debt + equity)] of ASX 200 companies of ~30%. This restoration of corporate balance sheets provides a solid platform for growth for the next few years; as debt markets are freeing up, funding is becoming more available on better terms; asset values are still well off their highs and several key growth projects are approaching investment phase, (e.g. PNG LNG) - all of which suggests ongoing corporate activity is likely.
- M&A activity continued in September with Nufarm confirming a non-binding acquisition proposal from Sinochem, ANZ bought out the 51% stake owned by ING in the asset management joint venture, and Yanzhou Coal continued to seek approval for its bid for Felix Resources. The Federal Government announced a series of proposed reforms to the telecommunications industry which weighed on Telstra's share price. Capital raisings continued with AWB and Boart Longyear announcing issues.
- It was announced during September that Australia's Q2 GDP rose 0.6% vs. expectations of a 0.3%. This was the fastest pace since Q108 and followed a Q109 rise of 0.4%. The current account deficit doubled in the June quarter to \$13.3bn from a revised 6.3bn in the March quarter and reflected a 13% q/q fall in exports. Employment fell in August but partially reversed a surprisingly strong July figure. The Westpac- Melbourne Institute consumer sentiment was also strong – it rose 5.2% in September to 119.3, its highest level since July 2007. The rise over the last 4 months (+34%) in the largest in the 35 year history of the index.
- The US ISM Index broke into expansion territory for the first time since January 2008 and the monthly pace of US job losses slowed to its lowest rate for a year, albeit unemployment still rose to 9.7%.
- Australian 10 yr bond yields eased for the second consecutive month (-6 bp to 5.36%) while its US counterpart shed 9bp during September. Although prospects for an economic recovery might be expected to weigh on bonds, they are at least easing supply concerns. The Australian government announced a deficit in May for 2008 - 2009 of \$27bn compared with a \$32bn forecast in May. Australian bonds were assisted by calmer interest rate markets, e.g., the Sept 2010 bank bill future hardly moved over the month, but it does imply a cash rate of 5% or 200bp higher than the current level. Hence, all markets are keenly awaiting a rates decision by the RBA in October.
- The Australian dollar gained by 4.6% vs. USD and closed the month at 87.3c, 38.5% higher than the 2009 low of 63c. This reflects both the inherent weakness of USD and the yield advantage of the AUD which, as alluded to above is likely to expand if the RBA elects to raise cash rates in 2009 (as expected). Australia will be the first developed economy to raise rates post the global financial crisis. Direct offshore investment, particularly from China also boosted sentiment. The AUD was also stronger vs. Sterling (+6.6%) but less firm vs. Euro (+0.8%).
- Spot iron ore prices started the month under pressure due to concerns that high Chinese inventories would weigh on demand but by month end they had recovered to be little changed but well below the August high. Base metals fell during September with the CRB Index down 6.4% and notably Copper was down by 7.8%, reacting to concerns that there may be an air pocket between Chinese re-stocking and a developed world recovery.
- Gold broke out of a 4 month trading range and rallied through USD1000 for the first time since March 2008. It ended the month at US\$1002.67(+5.1%), assisted by a weaker USD but remained range bound in Euro terms (€650 – 700).
- Despite further falls in US inventories and a weak USD, spot oil marked time in September (WTI, +0.9% to US\$70.61). The market appeared concerned that crude oil and product inventories were too high relative to demand and that the risk that a narrowing contango (forward premium) may release stored oil to the spot market.

Portfolio Activity

- During September the Fund continued to decrease net exposure by locking in profits as the market rally persisted. This resulted in a net exposure of 65%. The gross exposure is slightly higher due to the Fund selling call options against selected core long positions and adding a small short position.

Monthly Investment Report

Antares Lodestar Absolute Return Trust Australian Shares

- There was no material change to the Fund's sectoral exposure. The preference for industrials over resources was retained, specifically via significant exposure to the major banks and consumer discretionary stocks.

Fund Performance

Period ending 31.09.09	1m %	3m %	1yr %	2yr % p.a.	Since Inception % p.a.
Total Return	4.01	20.02	1.06	-0.54	1.01
Benchmark *	0.26	0.80	4.37	6.03	6.16
ASX200 Accum. ^	6.24	21.50	8.34	-10.92	-3.27

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 4.01% (post fees) in September. This was another strong monthly return for Lodestar. The performance was mainly attributed to our holdings in the financial stocks and domestic cyclicals, such as Village Roadshow and Graincorp.

Positive Influences

Company	September Return %	Fund Position %
ANZ Banking Group	13.6	5.6
National Australia Bank	7.7	5.0
Graincorp	14.4	2.2

- As the major banks were major contributors to the September market performance the Fund benefited from large positions in NAB, ANZ and Westpac. The Australian economy has surprised on the upside over the past quarter, with consumer and business surveys and employment data clearly showing that the bad and doubtful debt cycle will not be as severe as the banks had anticipated. This suggests that some excessive provisioning may be wound back which should be share price positive. The CBA result prompted most broking analysts to upgrade earnings across the industry. Macquarie bank also followed the global investment banks' share price strength.
- Graincorp rallied strongly during the month as the size of the Australia wheat crop was maintained at healthy levels and reasonable "top up" rain fell in most regions, albeit too late to produce a high yielding east coast crop.

Negative Influences

Company	September Return %	Fund Position %
Macquarie Bank put options	14.6	-0.4
Westfield	9.3	-0.5
Santos	-3.9	1.4

- Santos fell in a generally strong market. There was no stock specific news but the macro trend of underperforming resource stocks and lower oil prices (particularly in A\$ terms) were the main reasons for its poor performance.
- Westfield shares rallied strongly on the second last trading day of the month despite no obvious positive news flow. Investors seem willing to apply a strong premium to NTA of \$11 to this stock but we struggle to justify any rationale for it.

Outlook

Numerous points highlighted last month are still pertinent hence we reiterate them for their relevance.

- The buoyant mood of equity markets continues. This is entirely consistent with the significant improvement in the flow of economic and investment data over the past few months. The activity data from China continues to remain unseasonably robust. Indicators such as Purchasing Managers Index (PMI), electricity generation and money supply data all point to a very strong economy. The U.S. reporting season has also been supportive of the recent share prices moves upwards. Global credit spreads have continued to improve and stabilise. Some U.S surveys are showing improvements in consumer sentiment and manufacturing activity. Commodity prices have stabilised at higher levels and the Australian dollar is demonstrating increased investor risk appetite by continuing to climb higher against the US dollar and on a trade weighted basis.
- The Australian corporate reporting season prompted earnings upgrades by many analysts, particularly for the 2011 financial year. Positive earnings surprises were driven by cost savings rather than income growth – a feature that also dominated the US reporting season one month prior. This sets up a powerful financial configuration for earnings leverage when a more synchronised recovery occurs. The sharemarket performance is reaching a point where further good news is required and/or expectations of the recovery in future earnings needs to be reinforced at corporate Annual General Meetings which are now underway.
- In July we commented that many analysts had been reluctant to upgrade earnings prior to the reporting season, despite receiving significantly better economic news. We have now witnessed the reversal of an 18 month long trend of analyst downgrades. We anticipated this event and selectively increased the Fund's equity exposure which has benefited the Fund handsomely.
- The recent economic data in Australia, in particular the employment data are painting a progressively better economic picture as the unemployment rate may have peaked at under 6%. This would have been viewed as an inconceivable outcome this time last year and underpins economic growth. However, these strong numbers also guarantee a stronger and swifter response from the Reserve Bank of Australia on Monetary Policy. Their perception of a quick removal of "emergency" monetary

Monthly Investment Report

Antares Lodestar Absolute Return Trust Australian Shares

settings is now consensus. The deleveraging of the consumer domestically and internationally will be omnipresent this cycle and will give the recovery phase a fragility that has not been there historically.

- The key to the market at present, both in Australia and the U.S.A., is that now the market has recognised the good efforts by many management teams to lower costs since the global credit crisis took hold there needs to be continued confirmation of the global and domestic economic recovery. This way revenue growth can produce the leverage to earnings given the leaner corporate structures now in position. Is this recovery guaranteed? Recently the Chinese Premier Wen Jiabao recently warned on the government's official web site that authorities can not be 'blindly' optimistic as a "decline in external demand may continue for a longer time". This coming from the major source of global growth right now may not indicate that the recent moves by the sharemarket are risk free. The doggedly high level of U.S unemployment is cause for concern and the equity market is currently hyper sensitive to the initial unemployment claims data as a potential key to the maintenance or reversal of this worrisome economic malaise. The now significantly lower US dollar should start helping that
- economy become more competitive and in turn spur employment growth. If there is a delay to the employment stabilisation and eventual turnaround it will concern all equity markets.
- In addition, recent falls in the Baltic Dry Index (global freight rates), spot coal, iron ore and steel prices do not suggest that momentum is improving for global cyclicals. There needs to be continued positive economic news from not only those stronger economies like China and Australia but there also needs to be a continuing momentum from those lagging economies like Japan, the U.S.A and Europe to ensure the currently sharemarket rally can be sustained. In particular there needs to be signs that the consumers in these economies are returning to an improved consumption pattern. If the deleveraging of consumers continues this could lead to nervousness on the strength of the global recovery cycle. If this does occur a consolidation phase or a pull back could ensue until the profile of revenue growth can support valuations.

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 13 00738 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.