

# Monthly Investment Report

## Antares Lodestar Absolute Return Trust Australian Shares

### Market Review

**John Morgan, Chief Investment Officer**  
Lodestar Capital Partners

- In April the Australian sharemarket fell 1.4% and is now down 1.3% CYTD. World markets were mixed with China down 7.7%, Europe (Euro Stoxx) down 3.9% and the US up 1.5%. The US sharemarket focused on its strong reporting season whereas Europe was concerned with domestic issues regarding the fallout from Greece's sovereign debt turmoil.
- Australia's Resource sector was weak (-4.1%). The prospect of a cooling Chinese economy and concerns over potential tax changes from the Henry Review weighed on this sector. Banks were steady going into their interim results.
- On the M&A front, the ACCC re-buffed National Australia Bank's bid for AXA's Australian/NZ operations and Lihir Gold rejected Newcrest Mining's offer as inadequate. Lihir later accepted Newcrest's higher offer.
- The Reserve Bank of Australia (RBA) raised the official cash rate 0.25% to 4.25% at its April meeting. This is the fifth rate hike in six meetings. This historically aggressive stance reflects the removal of "emergency settings".
- Australia's employment data showed continued jobs growth but consumer and housing data gave varied signals.
- The domestic ten year bond yield fell 7bp to 5.71%. This was in line with small rallies in major world bond markets. The exception was the "P.I.I.G.S" being Portugal, Ireland, Italy, Greece and Spain, which sold off. The Greek ten year bond yield rose 242bp to over 10%.
- The Australian dollar gained 0.8% against the USD to reach 92.8c as bulk commodities continued rising strongly. The Euro remained weak against most currencies as Greece's fiscal crisis intensified and fell 1.6% against the USD.
- Commodity prices were mixed. The oil price rose 3% to US\$86.15 per barrel. The Gold price rose 6% to US\$1180 per ounce. Spot iron ore continued to rise and posted a 12% gain. Base metal prices saw weakness with Copper down 4.7% and Aluminium down 4.5%.

### Portfolio Activity

- Australia's sharemarket performed very strongly in March and early April. This was driven by robust 1H10 reporting season and continually rising coal and iron ore prices. However as valuations had moved to the expensive side of fair value, and with China's slow credit growth and the contagion spreading from the Greek crisis, the Fund's net market exposure was reduced 27% to 35% by the end of April.
- The main sectors exposures that were reduced were Consumer Discretionary (-4% to 10%), Materials (-5% to 12%) and Financials from (-8% to 9%).

### Fund Performance

Period ending 30.04.10	1m %	3m %	1yr %	2yr % p.a.	Since Inception % p.a.
Total Return	-1.45	1.79	21.43	-1.89	0.89
Benchmark *	0.36	1.06	3.64	5.02	5.76
ASX200 Accum. ^	-1.38	6.54	32.38	-2.93	-1.66

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 produced a return of -1.45% in April. The Fund's value fell in line with the general stockmarket. This was disappointing considering the net position was well below full investment. As mentioned above the Net Exposure was reduced from 62% to 35%. The reason for the poor result was stock selection. The positions of BHP and Rio Tinto accounted for 1.23% of the 1.45% fall in the unit price. Thus 85% of the decline was due to the two stocks that were receiving strong earnings upgrades courtesy of significantly stronger bulk commodity prices. The factors of Chinese monetary policy tightening and the deteriorating position in the Greek crisis outweighed the bullish iron ore and coal price moves.
- At the time of writing, the market has corrected by 5.3% and the Fund is down 1.5%. Thus the stock specific impact has been removed from the portfolio in relation to the BHP and Rio Tinto positions.
- 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 volatility.

### Positive Influences

Company	April Return %	Fund Position %
News Corporation	5.0	4.1
NAB	1.7	4.3
Centennial Coal	0.9	1.6

- **News Corporation (NWS):** News Corporation produced a very strong second quarter result of high quality. Operating income was up 44% versus a rise of 21% in the previous corresponding period. All core business divisions outperformed versus expectations. The result also had the tailwind of the successful Avatar film release.
- **National Australia Bank (NAB):** The ACCC announced it was opposed to National Australia Bank's proposals to acquire AXA. NAB can now appeal or accept the decision, or seek to appease the ACCC through a divestment. In addition the relative valuation metrics of NAB versus other major banks have become supportive.

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- **Centennial Coal (CEY):** Centennial Coal was a continued beneficiary of strengthening thermal coal prices with the commodity ascending ~15% over the month to reach \$108.87/tonne, the highest mark since the start of October 2008. Faint corporate rumours also persisted despite the lion share of attention being placed upon the MacArthur Coal action.

### Negative Influences

Company	April Return %	Fund Position %
Rio Tinto	-8.4	8.3
BHP Billiton	-6.7	6.1
James Hardie	5.9	-0.6

- **Rio Tinto and BHP Billiton (RIO + BHP):** Despite the aforementioned strength in thermal coal prices, both RIO and BHP fell during April amid wider global de-risking due in part to ongoing European sovereign uncertainty (i.e. the P.I.I.G.S) as well as increasing fears of further tightenings from the PBOC to cool an overheating Chinese economy. Rumours of a Resource Rent Tax also saw selling across the Australian mining and energy names leading into the 2010 Federal Budget.
- **James Hardie (JHX):** Despite its seemingly stretched valuation, JHX performed strongly during the month, a beneficiary of an ever improving outlook for the US economy. Whilst the recent US reporting season yielded strong results across the spectrum and US economic prints are on the improve, the US housing inventory remains at very high levels in the context of an unemployment rate of close to 10%.

### Outlook

- The risk profile of global growth forecasts have continued rising since December. Generally economic statistics are mixed but continue to point to recovery. However developments in China and especially Europe, give the progress of the 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, 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 will remain in place in the form of fiscal policy, however the RBA 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 seven meetings. This is one of the most aggressive sequences of official interest rate hikes ever seen in Australia. 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 initiative.
- The most significant occurrence in the last month has been the increasing concern over the Eurozone sovereign debt crisis. The concern was spreading to significantly higher bond yields and lower sharemarkets in Greece, Portugal and Spain. Authorities have acted with a "shock and awe" initiative of US\$1 trillion on 10th May. This bailout package is effectively taking the sovereign debt concerns of the P.I.I.G.S and putting them onto the Eurozone balance sheet, thus diluting the stronger French and German balance sheets.
- The US economy is staging a recovery though at a muted pace versus the recovery seen from other 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.
- At this stage the Australian market expects 27% FY11 earnings per share growth. The sectors expected to produce the highest growth are Energy, Metals & Mining and Financials. The sectors that are expected to produce the most modest growth (though not one sector is expected to produce negative growth at this stage) are Telecommunications, REITS and Insurance (in that order). The key to this year is to be positioned in those stocks that are going to deliver the best relative growth without taking on excess risk. What has been observed in recent days is that the continuous upgrades to earnings over the past year are pausing.
- Resource sector earnings upgrades have been stopped in their tracks by the Rudd Government's Resources "Super Profits" Tax (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 growth rates on lending are continuing to run at sub-par levels and competition in retail banking remains at a heightened state.
- The fragile nature of the global recovery and the high earnings hurdle are likely to create an environment in which 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 be likely 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 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 4,500 and 5,000 since September 2009. Thus in over nearly eight months the capital gain from the market has been close to zero. This saw-tooth action from the market is very likely to continue into the second half of the calendar year.

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