

Monthly Investment Report

Antares Lodestar Absolute Return Trust Australian Shares

Market Review

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- The ASX200 Accumulation Index rose by 8.0% in March – its first monthly gain since August 2008 which was largely prompted by the broad US market (S&P 500) rally of 8.6%. The best performing sectors were banking and resources, which respectively recorded 15% and 9.2% rallies. The defensive (telcos, healthcare, consumer staples) sectors underperformed as portfolio managers switched from defensive to cyclical stocks and as economic indicators appeared to stabilise.
- The positive sentiment shift occurred in response to the US Fed aggressively buying fixed income instruments and relaunching its plan to deal with “toxic assets”. The resource stocks rallied in response to positive PMI data from China. Industrial production declined further across Europe, the UK and US, with capacity utilisation rates now at historic lows of approximately 60%.
- The strong AUD/USD negatively impacted global health care companies. Telstra dragged the telco sector lower by 5.6% in the wake of its exclusion from the National Broadband Network (NBN) process.
- Economic data remained weak during March. December quarter GDP fell -0.5%, confirming that the non-farm economy is in recession. Housing finance data improved, mainly due to the impact of first home buyer activity; consumer confidence remained steady at low levels; building activity continued to decline. The unemployment rate increased from 4.8% to 5.2% which was the largest monthly increase since 1988. The RBA elected to leave cash rates unchanged at 3.25% in March, but as we go to print the RBA has just cut cash rates by 0.25% to 3%.
- US data releases were generally a little better than forecast, albeit Q4 GDP had its largest fall in 26 years. The ISM Manufacturing Survey improved slightly but remained at recessionary levels. In an effort to stabilise the banking system, US Treasury Secretary Geithner provided more detail on the Public-Private Investment Program (PPIP) which was the catalyst for the significant rallies in US financial stocks.
- During the month the AUD/USD exchange rate rallied strongly to over 70c and settled around 68.4c by month end. The USD fell as markets factored in the scale of fiscal and monetary changes, combined with the Fed's intention to use its balance sheet to lend to the US Government. The USD fell 4.4% against the Euro and 1.9% against GBP. Australian 10 year bonds continued to drift higher from their January lows, reaching 4.6% by mid March. However US long bonds were more volatile during the month and finally closed at 2.66%, down 35bps.
- Oil rallied during March to reach its highest level since December 2008. This was in response to the weaker USD and increased hopes for an economic recovery. Oil closed the month at USD49.67/bbl, up 12.5%. Gold was unable to hold onto February's gains and posted a 2.6% decline despite US dollar weakness.

Portfolio Activity

- The Fund continued to increase its exposure to the market from 17% to 25% by adding to long positions (from 21.2% to 26.7%) and reducing short positions (from 4% to 1%). Consequently, our gross exposure changed only slightly to 29.4%.

Fund Performance

Period ending 31.03.09	1m %	3m %	6m %	1 yr%	Since Inception % p.a.
Total Return	3.63	0.87	-17.92	-19.14	-8.36
Benchmark *	0.33	0.96	2.75	6.84	6.89
ASX200 Accum. ^	7.98	-1.98	-19.87	-29.52	-16.97

Performance returns are calculated net of management fees and 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 3.6% for the month of March, which was a good result as the Fund produced 44% of the general market's gain with exposure of between 17% and 25% over the month. The ASX 200 Accumulation Index was actually down more than 5% during the month, and we closed out most of the Fund's short positions during this weakness.

Positive Influences

Company	March Return %	Fund Position %
Lend Lease	24.8	1.3
Clough Limited	20.5	1.0
Origin Energy	10.7	1.4

- Lend Lease had a very good rebound after the market digested its capital raising of \$300 million in February. The stock rallied through the issue price of \$6.05 to finish the month at \$6.49.
- Clough Limited was re-rated on the back of a solid result and a strategic initiative to sell its coal division to strengthen its balance sheet for increasing its capacity for its core oil and gas division. In addition there were further contract wins.
- Origin Energy tracked higher with the market and outperformed on the expectation that the company may increase its stake in the Otway gas project by acquiring Woodside's stake of 51%. Origin already owns 31% of the project.

Negative Influences

Company	March Return %	Fund Position %
Telstra	-5.6	1.7
Village Roadshow Prefs	-10.4	1.1
Westfield Group	-6.1	1.0

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- Telstra declined during the month as speculation mounted over the outcome of the NBN project. Telstra announced it would upgrade its hybrid coaxial (HFC) cable broadband network to 100 mbps. Melbourne would be completed by the end of December and this would be followed by the other capital cities. Also during the month, the ACCC indicated it would institute legal proceedings against Telstra for allegedly contravening its obligations to provide ULL and LSS access to competitors. Lastly, the market has been using Telstra as a funding source in order to invest in banks and resource stocks. As a result it has become relatively better value over the past few months and now has a relatively safe fully franked yield of nearly 9%, unlike many other companies that have been forced to cut dividends to preserve capital.
- Westfield Group fell 6% with the REIT sector only falling 0.5% for the month. There was significant rotation from Westfield into higher risk REITs as the market took on more risk. As Westfield represents 50% of the REIT Index it was used as a funding source for these transactions.

Outlook

- March witnessed one of the most significant turnarounds the market has seen since the bear market commenced in November 2007. There have been several trading rallies so far in this bear market and to date each has failed with new lows ensuing. Is it going to be different this time?
 - Given that inflation is likely to fall, bonds and cash rates remain low and as equity valuations have been inexpensive for several months it is worth reviewing some key macroeconomic indicators that may help answer this question.
 - Firstly, the University of Michigan measure of consumer sentiment has a good long term record of identifying the beginning of a sustainable rally in U.S. markets. To date this measure is at a very low historic level, reflecting the concerns over the state of the U.S economy. It has started to stabilise at these low levels but is yet to decisively rebound.
 - Secondly, we are also about to enter US first quarter reporting season. It appears that mark to market accounting will be on hold until asset price stability returns, i.e. the price matching between willing buyers and willing sellers. This will alleviate the pressure for further asset write-downs. In addition, major financial stocks such as Citi and J.P. Morgan indicated that they were profitable in January and February but in light of recent economic data from the U.S it is difficult to see why corporate profits will surprise on the upside.
- It may be a case of less money being lost, which may signal that the worst is over in a momentum sense. This could prove enough to stabilise equity prices and it will be resolved one way or another in the coming weeks.
- Also, the Chinese economy is showing early signs of turning around from the sudden loss of momentum in the December half, post the Beijing Olympics. The Purchasing Managers Index (PMI) is now above 50 (which indicates a re-expansion of the economy is occurring), and the electricity generation statistics are showing a turnaround from the fall in the second half. Thus, the Chinese indicators have ceased being negative and are now neutral to positive.
 - The Australian dollar, which has a strong long term correlation with world growth and commodity prices (i.e. the Australian terms of trade), was sold off very aggressively late last year when fears of a rapidly slowing global economy took hold. In the past month the currency has rallied approximately 11% which has correlated with investors increasing their risk exposure and should be viewed as a cautiously positive indicator that the global slowdown has somewhat abated.
 - Stock price volatility measured by the U.S. VIX Index has remained at historically high levels at around 40. It peaked above 80 late last year. The VIX sits between 10 and 20 in normally trending markets. This measure has started to stabilise but is not yet supportive of a normally functioning market. The VIX needs to be significantly lower to coincide with a sustainable rally from equity markets globally as it has in the past.
 - Global credit spreads have correlated reasonably with the VIX Index and similar comments can be made. Since the December quarter there have been significant improvements in indicators such as LIBOR and the TED spread. These were maintained despite pressures in the Eastern European markets. However, these indicators, like the VIX are still much higher than normal trends which reflect some stabilisation in credit markets has occurred but there are still significant pressures on the availability and pricing of credit.
 - Global governments' economic stimuli have featured for over a year now. The policy initiatives have been continually growing in number and size, but the markets have only recently reacted positively to these announcements as the confusion surrounding the change of direction of the TARP program in late September/ early October dissipated. The RBA has also been aggressive with its monetary policy response and is now indicating that the rate of stimulus is going to slow. We await the May Budget with interest.

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