

Key Details

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Fund Inception	11 August 2004
Benchmark	S&P/ASX 300 Accumulation Index
Number of Stocks Held	30

BELLWETHER PARTNERS LIMITED

Australian Share Fund

January 2008

Unit Price: 31 January 2008

NAV Price	\$1.2877
Buy Price	\$1.2922
Sell Price	\$1.2832

Australian Share Fund Performance

To 31 January 2008	1 Month	3 Months	1 Year	2 Years (pa)	3 Years (pa)	Inception (pa)
Fund Return (Gross)	-10.24%	-13.64%	10.77%	15.90%	23.55%	26.26%
S&P/ASX300 Accumulation Index	-11.00%	-15.85%	1.53%	11.52%	15.85%	19.73%
Out/Underperformance	0.75%	2.21%	9.25%	4.38%	7.70%	6.53%

Performance numbers for periods of greater than one year have been annualized. Fund inception: 11 August 2004.

OVERVIEW

January was a bleak month for the Australian stock market, as it was for global markets in general. The S&P/ASX300 Accumulation Index lost 11.00% of its value by the end of the month. Midway through the month, the Australian market had a 12 day losing streak, its worst run since January 1982. Both day to day and intraday volatility were unusually high during the month. At one point, on 22 January, the index was down 18.30% month to date, after falling an amazing 7.12% on the day. The big fall in January caps off a dismal 3 months for the Australian market with falls of 2.64% in December and 2.89% in November.

The key driver for all of this negative performance is the increasing likelihood of a US recession during 2008. These recessionary fears, in turn, are driven by the subprime meltdown in the US. This has immediate implications for consumer spending and financial institutions directly exposed to this segment of the home loan market, and indirect implications for all other sectors in the economy. The US troubles led to the US Federal Reserve implementing an "emergency" interest rate cut of 75bp in between meetings of the FOMC, before cutting another 50bp the week after as part of a scheduled FOMC meeting. Cutting official interest rates by 1.25% in the space of one week is a pretty good indicator that the US Federal Reserve considers circumstances to be potentially grave. The cash rate in the US is currently a stimulating 3.0%.

Global market sentiment was already negative when the news of another rogue trader, this time at Societe General in France, allegedly committed the largest corporate fraud in financial history. This only added another shade of grey to the gloomy conditions. In terms of the Australian market,

the Property and Financial sectors were the worst performers for the month, while Healthcare was the best, but even this sector was down over 5% for the month.

On a positive note, the Bellwether Australian Share Fund (ASF) once again outperformed its benchmark by 0.75% in January. Given the brutal conditions experienced in January this was a good outcome. It was also the eighth consecutive month where the ASF has beaten the market and this is a very clear indicator of the quality of the Bellwether research and investment process. The portfolio is well placed to ride through the current turbulence due to a defensive stance taken with an overweighting to the healthcare sector and a reduction in exposure to the property stocks. We of course maintain our conviction that our portfolio is well balanced and will continue to perform well relative to the market.

OUTLOOK

The Bellwether team believe the fundamentals for the Australian economy and the Australian market are still strong. Data on retail sales, employment and building approvals released during January all suggest the economy is strong. On the downside, recent consumer price inflation is at a level that suggests more interest rate rises are necessary. The recent price correction has pushed the stock market into better value territory using the commonly used price to earnings ratio. There are risks on the other hand of course, and these encompass issues such as the cost and availability of credit, the fallout from a slowing US economy and the impacts of a rising Australian dollar, especially if the domestic interest rate rises continue.

POSITIVE CONTRIBUTORS
Commonwealth Bank of Australia (CBA)*
Portfolio Contribution +1.07%

The Commonwealth Bank share price fell 16.4% in January. Fortunately the stock was not held in the portfolio and so the Australian Share Fund benefited relative to the S&P/ASX300 Accumulation Index. The Commonwealth Bank fall was broadly in line with the performance of the financials in general and illustrates one of the advantages of holding a concentrated portfolio of only 30 stocks in that perceived potential poor performers don't need to be included. Early in the month, Commonwealth announced a 0.10% increase in its variable home loan rate.

Wesfarmers Limited (WES)*
Portfolio Contribution +0.28%

The Wesfarmers share price was down 12.8% for the month of January. Wesfarmers are still digesting the purchase of the Coles supermarkets and its ancillary businesses. Market opinion is mixed on the benefits of the Coles acquisition and it is still too early to have a view with any certainty as it is a turnaround story that will take many years to completely unfold. Given the complexity and size of the Coles businesses, we are happy to stay on the sidelines for the moment and monitor developments as they happen.

Babcock and Brown Limited (BNB)*
Portfolio Contribution +0.19%

The financial stocks had a shocker of a month and Babcock and Brown did not escape the carnage well at all with a share price drop of 33.9% in January. Apart from the negative conditions being faced by the entire market, Babcock and Brown found it necessary to issue a release during the month clarifying their relationship with the struggling equities business Tricom Equities. Like Commonwealth Bank and Wesfarmers, Babcock and Brown is not held in the Fund.

NEGATIVE CONTRIBUTORS
David Jones Limited (DJS)
Portfolio Contribution -0.50%

The David Jones share price fell 17.6% during January. The Australian Share Fund has a reasonable overweight to the high end retailer, and we continue to maintain a strong conviction in the stock despite its weak January share price performance. News flow for David Jones was particularly light during the month with nothing of any consequence being announced.

Woolworths Limited (WOW)
Portfolio Contribution -0.45%

The Woolworths share price fell 15.3% during the month. In terms of overall consumer exposure we believe the fund is well balanced with Woolworths capturing the opposite end of the retailing spectrum of David Jones. Like David Jones, we have a strong conviction in WOW and we are comfortable with our current exposure.

WorelyParsons Limited (WOR)
Portfolio Contribution -0.44%

January was not a good month for WorelyParsons with its share price falling by 24.5%. This was despite some positive news for the stock with the announcements being made of two new services contracts being awarded. WorelyParsons has been a phenomenal performer for the Fund over the past few years and we believe the stock will continue to perform well going forward.

Top Ten Holdings

Stock	Fund (%)	B/Mark (%)
BHP Billiton (BHP)	11.86	10.69
Westpac Banking Corporation (WBC)	6.80	4.23
National Australia Bank (NAB)	6.00	4.84
Woolworths Limited (WOW)	5.87	3.15
Rio Tinto Limited (RIO)	5.28	2.85
Australia and NZ Bank Limited (ANZ)	5.02	4.39
CSL Limited (CSL)	4.22	1.74
QBE Insurance Group (QBE)	3.87	2.19
Telstra Corporation Limited (TLSCA)	3.75	1.02
Newcrest Mining (NCM)	3.66	1.40
Top Ten	56.32	-
Other Stocks	41.03	-
Cash	2.65	-
Total	100.00	-

* Stocks with an asterisk are not held in the Australian Share Fund.

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