



# BELLWETHER PARTNERS LIMITED Australian Share Fund

April 2006

## UNIT PRICE as at 30 April 2006

<b>NAV Price</b>	\$1.4524
<b>Buy Price</b>	\$1.4575
<b>Sell Price</b>	\$1.4473

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<b>Fund Inception</b>	11 August 2004
<b>Benchmark</b>	S&P/ASX 300 Accumulation Index
<b>No. Stocks Held</b>	27

## PERFORMANCE STATISTICS

Periods ending 30 April 2006	1 month	3 months	1 year	Since Inception (p.a)
<b>Fund Return (Gross)</b>	1.75%	8.64%	51.36%	41.66%
<b>Benchmark*</b>	2.60%	8.12%	37.95%	32.69%
<b>Out/Under Performance</b>	<b>-0.85%</b>	<b>0.52%</b>	<b>13.41%</b>	<b>8.97%</b>

\* S&P/ASX 300 Accumulation Index

## OVERVIEW

The Australian equity market was bullish again in April with the S&P/ASX 300 gaining 2.6% and setting fresh intra month price records. Commodities led early gains but lost ground at the end of the month following an unexpected interest rate rise in China. Base metals prices dropped soon after given the potential impact of the rate increase on Chinese demand. Investors engaged in profit taking and shifted out of the Materials sector, adopting more defensive positions.

Domestically, economic data continued to be positive with employment, retail sales and private sector credit growth exceeding market expectations. Later in the month the market experienced some trading volatility on expectations of an interest rate rise. Analyst consensus suggested a 0.25% rise given Treasurer Peter Costello's comments that inflationary pressures are building within the economy (subsequently confirmed by the RBA announcement of 3rd May).

The Technology (+2.89%), Telecommunications (+4.54%) and Materials (+4.08%) sectors outperformed while REITs (+0.18%), Industrials (+0.22%) and Consumer Discretionary (+0.71%) lagged. The Australian Equities Portfolio returned 1.75% (gross) during the month, underperforming the benchmark by 0.85%. An overweight exposure to miners BHP Billiton (-0.62%) and Rio Tinto (-0.55%) detracted most value, following the sharp fall in metals prices toward the end of April. Demand for raw materials nevertheless continues to remain strong with the small interest rate rise in China being implemented because of extremely strong demand in certain industries in that country. US economic activity remains firm in the short term, although signs of a slowing housing sector and softening consumer spending trends remain.

## OUTLOOK

Continuing our comments outlined in the March performance report, the December '05 reporting season was followed up in April by several banks reporting results in line with positive market expectations for the 6 months ending March. First quarter profit results reported by American companies in April have on the whole also been strong, with upward earnings surprises being at the highest levels in several years.

Nevertheless, global evidence is emerging of rising cost pressures in certain sectors due to high metal and energy costs. To date, much of these business cost pressures have been offset by improving productivity and the increased use of (low) Chinese labour in manufacturing processes.

Ongoing strong GDP growth in China caused a 28 basis point rise in official interest rates in April, while the Bank of Japan has indicated it may lift its zero interest rate policy in coming months. At the same time, the US Federal Reserve Board has signalled the possible end to its succession of 0.25% rate rises over the last two years, causing a strengthening of Asian currencies against the \$US. With the \$A rising due to the RBA lifting local interest rates by 0.25% to 5.75% and the Euro also rising against the \$US on the prospect of higher interest rates there, conditions have been conducive for a strong rally in the gold price, rising US\$73/oz or 12.5% over the month. From a geo-political perspective also, the gold price continues to perform strongly. There is evidence that countries holding trading surpluses with the USA, and who have funded this US deficit with purchases of US treasuries, are beginning to 'diversify' their foreign reserves into non US\$ exposures such as Euros and gold. This also appears to be the situation with oil exporters earning significant petro-dollars, particularly OPEC cartel members. Lingering uncertainty regarding Iran's intentions for its nuclear capabilities is also providing an environment for rising gold and oil prices.

These trends of emerging producer inflation, rising interest rates and a weakening \$US are expected to continue for the foreseeable future. Consumer spending patterns, both overseas and locally, can be quite fickle under an environment of rising petrol costs and rising interest rates and will need to be observed carefully for changing trends in discretionary spending and the property market.

Overall, favourable conditions remain for domestic equities, particularly resource stocks and non manufacturing/packaging industrials. Structural aspects to the US economy remain of concern (trade deficits, reliance upon home pricing fuelled consumer spending and household debt) which may impact the US dollar and investor confidence in US markets.

## SIGNIFICANT PURCHASES AND SALES

Purchases	Sales
<b>BHP</b>	<b>PMN</b>
<b>RIO</b>	<b>ABS</b>
-	<b>SUN</b>
-	<b>TCL</b>
-	<b>MCG</b>

## POSITIVE CONTRIBUTORS

### Oxiana Limited (OXR)

<b>Portfolio Contribution</b>	+1.23%
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Oxiana continued its strong share price rally of the last 10 months, rising a further 27.6% in April. The stock was supported by the continuing theme of rising copper, gold, silver and zinc prices. Since the start of 2006, the zinc price is up 65.8%, silver price up 53.0%, copper price up 52.5% and gold price up 27.6% in US\$ terms.

Numerous stockbroker upgrades to commodity price assumptions during the month also led to profit forecast and valuation upgrades for Oxiana and other major resource plays. Oxiana also held an upbeat AGM during the month detailing further progress on the Prominent Hill project in South Australia, which provided further impetus to positive investor sentiment to the stock.

### Zinifex Limited (ZFX)

<b>Portfolio Contribution</b>	+0.44%
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Like Oxiana, Zinifex enjoyed a strong share price rally in April fuelled by rising commodity prices, in particular zinc and silver. The company's profitability is highly leveraged to the zinc price, culminating in several significant upgrades to earnings forecasts and valuations by major broking houses. Zinifex's March quarterly report detailed a decline in zinc metal production due to maintenance downtime at the Risdon smelter in Hobart, however zinc concentrate production from minesite improved from pcp. LME inventories of zinc continue to decline and a tight supply / demand balance is expected to continue through to late 2007 according to industry sources.

### Oil Search Limited (OSH)

<b>Portfolio Contribution</b>	+0.29%
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Oil Search reported an encouraging March quarter production and revenue report driven by higher oil prices and higher field output with the commencement of the SE Mananda oil field. Revenue was more than double compared to pcp and field production was at the highest levels in six years. Steady development continues on the PNG to Queensland gas project. Demand for oil in Asia remains very strong and the Asian crude benchmark price, Tapis, on which crude oil is priced in Australasia, was at a premium to the already high priced daily quoted West Texas crude.

## NEGATIVE CONTRIBUTORS

### BHP Billiton (BHP)

<b>Portfolio Contribution</b>	-0.62%
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BHP, although rising 4.6% over the month, was only held in the Portfolio for part of this time resulting in a negative contribution. BHP was held in the Portfolio at the end of the month. The company benefited from rising commodity prices and broker upgrades, while its March quarter production report was solid without being spectacular due to some weather related disruption to iron ore shipments and natural field decline in oil production.

### Rio Tinto Limited (RIO)

<b>Portfolio Contribution</b>	-0.55%
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Rio, like BHP, was only held for part of the month in the Portfolio, resulting in a negative return for the fund. Rio continues to benefit from improving commodity prices and upgraded broker projections, with the share price essentially consolidating previously won strong gains made in March. Rio's March quarter production report was also adversely impacted by weather related issues in iron ore output from Western Australia.

### ABC Learning Centres Limited (ABS)

<b>Portfolio Contribution</b>	-0.14%
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ABC Learning undertook a significant capital raising to partly fund its acquisition of the Kids Campus and Learning Care Group childcare companies in America. The \$600m capital raising will also be targeted for future acquisitions. The result was a capital raising at \$7.30 compared to the trading price of \$7.82 prior to the capital raising announcement, causing the share price to decline late in the month. The Portfolio exited its holding in ABC Learning prior to this capital raising and therefore did not receive the full negative impact of the capital raising effect.

## TOP TEN HOLDINGS

Stock	B/Mark	Fund
<b>BHP Billiton Limited (BHP)</b>	10.36%	9.32%
<b>Babcock and Brown Limited (BNB)</b>	0.23%	8.20%
<b>Rio Tinto Limited (RIO)</b>	2.19%	6.43%
<b>Oxiana Limited (OXR)</b>	0.46%	5.75%
<b>Zinifex Limited (ZFX)</b>	0.51%	5.51%
<b>Australia &amp; New Zealand Banking Group (ANZ)</b>	5.04%	4.79%
<b>Westpac Banking Corporation (WBC)</b>	4.53%	4.42%
<b>Aristocrat Leisure Limited (ALL)</b>	0.54%	4.19%
<b>Australian Stock Exchange Limited (ASX)</b>	0.33%	3.97%
<b>Woodside Petroleum Limited (WPL)</b>	2.03%	3.77%
<b>Top Ten</b>		<b>56.35%</b>
<b>Other Stocks</b>		<b>42.26%</b>
<b>Cash</b>		<b>1.39%</b>
<b>Total</b>		<b>100.0%</b>

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