



# BELLWETHER PARTNERS LIMITED Australian Share Fund

## August 2006

### UNIT PRICE as at 31 August 2006

|                   |          |
|-------------------|----------|
| <b>NAV Price</b>  | \$1.3345 |
| <b>Buy Price</b>  | \$1.3392 |
| <b>Sell Price</b> | \$1.3298 |

|                           |                                                                                                                                                                                      |
|---------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
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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>    | 20                                                                                                                                                                                   |

### PERFORMANCE STATISTICS

| Periods ending 31 August 2006 | 1 month       | 3 months      | 1 year       | Since Inception (p.a) |
|-------------------------------|---------------|---------------|--------------|-----------------------|
| <b>Fund Return (Gross)</b>    | 1.11%         | 1.21%         | 27.42%       | 33.58%                |
| <b>Benchmark*</b>             | 3.34%         | 3.68%         | 20.33%       | 25.90%                |
| <b>Out/Under Performance</b>  | <b>-2.24%</b> | <b>-2.47%</b> | <b>7.08%</b> | <b>7.68%</b>          |

\* S&P/ASX 300 Accumulation Index

### OVERVIEW

The volatility of recent months calmed in August as investor focus shifted to company specific news driven by the profit reporting season. The S&P/ASX 300 produced a solid return of 3.34% as a number of speculative takeovers for large capitalisation stocks pushed the market higher. Amongst these was Coles Myer Limited (CML) who was approached by a consortium of private equity funds. Australian Pipeline (APA) and Colonial First State (CFS) both bid for GasNet (GAS) with APA emerging as the likely victor.

Overall, corporate profits finished in line with consensus expectations. Stocks exposed to infrastructure and non-residential construction generally reported well while those with exposure to rising input costs and interest rates disappointed investors in terms of profit or outlook. Correspondingly, Consumer Staples (+10.6%), Utilities (+5.5%) and Financials (+5.1%) outperformed, while Energy (-3.5%), Healthcare (-0.2%) and Telecommunication Services (-0.1%) lagged as investors increased their exposure to defensive sectors.

**The Bellwether Partners Australian Share Fund** had a positive return of 1.11% (gross) for the month though underperforming the benchmark. The team restructured the portfolio toward a more defensive position early in the month, increasing Cash holdings to 15% to prevent the erosion of value given the unstable nature of the reporting season. Holding only a maximum of 30 stocks in a market hot with takeovers either rumoured or factual (CML, FGL, HSP) creates the potential for our portfolio to underperform, as we only hold stocks that rank well on their own merits and not as a speculative take over play. We are not "noise traders"; noise or non-fundamentally driven short term price moves can cause a decoupling, seen this month when poor performing stocks with poor fundamentals outperformed in the short term. Examples of this included PPX and AMC. We were rewarded by an overweight position to Financials (+1.62%) and Materials (+0.09%) while the downside of a concentrated portfolio was evident in the negative returns delivered by reduced exposure to Industrials, Consumer Staples and Utilities.

### OUTLOOK

The close of the reporting season will prompt a re-weighting of the Australian Share Fund, increasing exposure toward defensive Financials and away from smaller capitalisation Resources holdings that are likely to bring undue risk into the portfolio. The Cash holding will be sold down to approximately 5%. Into September we are expecting the short term rallies experienced during reporting season to settle back to valuations based on fundamentals. We expect the market to continue to be tested by investor expectations as demonstrated in the reactions to profit forecasts in August.

The lack of strong upward momentum in profit announcements is expected to dampen the market in coming months, with some analysts concerned that rising cost pressures are hampering growth. A number of top 100 companies cut their dividend payout ratios without any specific policy change, indicative of a growing caution about prospects, particularly in the Industrials sector.

Views on global economic growth are cautious following China's recent interest rate rise. Supply constraints are likely to keep commodity prices high with metals inventories at consistently low levels. Local interest rate pressures have eased marginally following the Reserve Bank's decision to raise rates by a further 0.25% to 6% early in the month. A further rate was not implemented in early September but there remains among analysts the expectation of further Reserve Bank action this year.

Oil and petrol prices are expected to continue to dampen the Consumer Discretionary sector although prices are expected to ease in reaction to a fall in the oil price in the US. Volatility is still expected of the oil price however due to its link with global political developments and the US Hurricane season. The US macro-economic scenario is critical going forward, with a significant slowing in new housing activity being evident in 2006. The tight correlation between US housing activity and consumer spending is an important forward indicator for US GDP tightening.

## POSITIVE CONTRIBUTORS

### Babcock & Brown Limited (BNB)

|                               |        |
|-------------------------------|--------|
| <b>Portfolio Contribution</b> | +0.38% |
|-------------------------------|--------|

Babcock and Brown (+3.87%) continues to rank highly in our Quantitative rankings and was rewarded by investors after reporting another very strong result mid-month. We believe BNB to be a high quality growth stock which has exhibited exceptional growth.

### Australia & New Zealand Banking Group (ANZ)

|                               |        |
|-------------------------------|--------|
| <b>Portfolio Contribution</b> | +0.33% |
|-------------------------------|--------|

Although not reporting until October, during the month ANZ revealed that revenue growth was exceeding expectations and was likely to be in the upper end of their 7 to 9% target range. ANZ was one of the biggest contributors to market performance in August, returning 7.92%.

### Seek Limited (SEK)

|                               |        |
|-------------------------------|--------|
| <b>Portfolio Contribution</b> | +0.31% |
|-------------------------------|--------|

Online jobs advertiser Seek delivered a positive surprise to the market in reporting season and enjoyed subsequent upward earnings revisions, gaining 11.06%. We increased our weighting to SEK in August having held the stock for a number of months. SEK still ranks highly at number 2 within our Quantitative model.

## NEGATIVE CONTRIBUTORS

### Oil Search Limited (OSH)

|                               |        |
|-------------------------------|--------|
| <b>Portfolio Contribution</b> | -0.60% |
|-------------------------------|--------|

Oilsearch faced significant price revisions early in the month, losing 13.65% following a series of negative announcements. AGL called a halt to work on the downstream portion of OSH's \$7 billion PNG pipeline project, bringing the future of the project into doubt. With the pipeline accounting for 11.5% of OSH's price target on consensus, we sold our holding intra month to control risk.

### Oxiana Limited (OXR)

|                               |        |
|-------------------------------|--------|
| <b>Portfolio Contribution</b> | -0.33% |
|-------------------------------|--------|

Profit taking in the resources sector saw Oxiana's share price falter, down 6.56% seemingly in contrast with their very strong June result that was well ahead of expectations. We reduced our exposure to the mining stock but retained an overweight position as we believe OXR has a strong track record and significant future organic growth potential.

### Computershare Limited (CPU)

|                               |        |
|-------------------------------|--------|
| <b>Portfolio Contribution</b> | -0.17% |
|-------------------------------|--------|

Computershare's reported profit was in line with expectations but disappointed a market (-0.76%) that was looking for better outlook comments; growth was projected by CPU at 20% while analyst expectation was around 25%. Bellwether sold out of Computershare intra month as it has dropped out of the Buy universe identified by our Quantitative ranking system.

## SIGNIFICANT PURCHASES AND SALES

| Purchases                             | Sales                   |
|---------------------------------------|-------------------------|
| <b>Australian Infrastructure Fund</b> | <b>CSR</b>              |
| <b>Coates Hire</b>                    | <b>Perpetual</b>        |
| <b>QBE Insurance Group</b>            | <b>Oil Search</b>       |
| <b>St George Bank</b>                 | <b>Computershare</b>    |
| <b>Stockland Group</b>                | <b>Minara Resources</b> |

## TOP TEN HOLDINGS

| Stock                                                  | B/Mark | Fund          |
|--------------------------------------------------------|--------|---------------|
| <b>BHP Billiton Limited (BHP)</b>                      | 9.78%  | 11.02%        |
| <b>Babcock and Brown Limited (BNB)</b>                 | 0.26%  | 8.39%         |
| <b>Australian Stock Exchange Limited (ASX)</b>         | 0.56%  | 7.19%         |
| <b>Rio Tinto Limited (RIO)</b>                         | 2.08%  | 5.56%         |
| <b>QBE Insurance Group Limited (QBE)</b>               | 1.93%  | 4.85%         |
| <b>Oxiana Limited (OXR)</b>                            | 0.39%  | 4.48%         |
| <b>Australia &amp; New Zealand Banking Group (ANZ)</b> | 5.04%  | 4.35%         |
| <b>Westpac Banking Corporation (WBC)</b>               | 4.34%  | 3.83%         |
| <b>Stockland (SGP)</b>                                 | 0.98%  | 3.68%         |
| <b>Australian Infrastructure Fund (AIX)</b>            | 0.08%  | 3.66%         |
| <b>Top Ten</b>                                         |        | <b>57.01%</b> |
| <b>Other Stocks</b>                                    |        | <b>28.67%</b> |
| <b>Cash</b>                                            |        | <b>14.32%</b> |
| <b>Total</b>                                           |        | <b>100.0%</b> |

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