



# BELLWETHER PARTNERS LIMITED Australian Share Fund

## July 2006

### UNIT PRICE as at 31 July 2006

<b>NAV Price</b>	\$1.3209
<b>Buy Price</b>	\$1.3256
<b>Sell Price</b>	\$1.3163

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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>	22

### PERFORMANCE STATISTICS

Periods ending 31 July 2006	1 month	3 months	1 year	Since Inception (p.a)
<b>Fund Return (Gross)</b>	-3.33%	-1.40%	30.41%	34.51%
<b>Benchmark*</b>	-1.68%	-4.43%	18.79%	25.05%
<b>Out/Under Performance</b>	<b>-1.65%</b>	<b>3.03%</b>	<b>11.62%</b>	<b>9.46%</b>

\* S&P/ASX 300 Accumulation Index

### OVERVIEW

After recovering somewhat in early July from the difficult market conditions of May and June, the Australian equities market faltered again mid month after inflationary and rising interest rate concerns engulfed investor attitudes. As a result the S&P/ASX 300 declined 1.68% over the month. All sectors posted absolute negative returns with the Consumer Staples, Healthcare and Materials sectors taking the brunt of the downturn.

Interest rates were a cautionary influence and although the Reserve Bank held interest rates steady in July, speculation about a further rise in August proved founded as the RBA raised the interest rate by 0.25% to 6.00%.

Inflationary concerns were also apparent not only in Australia but also in most OECD countries as robust employment, capacity constraints and household spending continued to be firm. In Australia the June quarter CPI increase 4% yoy and core inflation rose 3% yoy which is at the high end of the RBA's preferred band. The Reserve Bank will be relying on consumer spending being reigned in as fuel prices and rising interest rates impact on household budgets.

The **Bellwether Partners Australian Share Fund** closed the month down 3.33%, underperforming the benchmark S&P/ASX 300 by 1.65%. Importantly, medium and longer term results remain robust. Key long term holdings experienced mixed performance with Minara Resources and Jubilee Mines performing well, while Babcock and Brown, Seek and BHP Billiton underwent some share price consolidation. July saw the merger of the two largest exchanges in the country; ASX and the Sydney Futures Exchange (SFE). Positive sentiment prior to the merge on 26 July drove the SFE share price upward, contributing 0.30% to the Australian Share Fund performance. The portfolio maintained a high cash holding of 10.40% as a defensive measure and moderate trading was undertaken to reduce the small cap exposure.

### OUTLOOK

Volatile market conditions persevered in July as investors continued to grapple with inflationary trends on the one hand and oil price induced economic slowdown impacts on the other. Volatility is demonstrated by 15 of the last 45 days showing a share price movement of 1% or more. Increasing inflationary pressures flowing into rising interest rates are causing investors and consumers to reappraise their investment strategy, particularly in the United States. Given the strong relationship between US consumer spending and local GDP growth, much hinges upon the attitudes of the US consumer to direct future equity market performance.

Strong profit results are expected in the impending reporting season in Australia, particularly outside the manufacturing and packaging sectors. Corporate comments about the future trading environment will influence share price reaction to these results, particularly amongst historically high growth companies which trade on correspondingly high P/E multiples. Any evidence of profit growth slowdown by these companies is likely to be treated harshly by the market. Conversely, dynamic and defensive type industries are in a position to receive market support in an increasing risk averse investment environment.

As discussed in recent months, current market focus is one of contemplation over which inflationary impacts may be emerging globally and the resultant impact on interest rates, contrasted against the current strong economic growth picture of Asia and to date strong performance of the US economy. The strong growth in China, India and the recovering Japanese economy remain critical drivers for Australian growth, particularly in the materials sector and the extent of any slow down in China especially over the next few months will impact on our resource stocks.

## POSITIVE CONTRIBUTORS

### SFE Limited (SFE)

<b>Portfolio Contribution</b>	+0.30%
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Sydney Futures Exchange completed its merger with ASX mid month to create the ninth largest listed exchange in the world. The stock rose 6.33% prior to the merger before the merged group traded under the ASX banner. Ongoing strong trading volumes were evident in June and completed a very strong fiscal '05/06 year.

### Jubilee Mining Limited (JBL)

<b>Portfolio Contribution</b>	+0.13%
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Jubilee Mines saw its share price rise 6.10% over the month, buoyed by increases in resources at their Anomaly 1, Prospero and Sinclair deposits. The company finished the fiscal year ahead of budgeted production levels with 11,400 tonnes of nickel in concentrate produced from Cosmos compared to a budgeted figure of 11,000 tonnes. Due to very strong prevailing nickel prices and tight cost controls, the company has increased cash and receivables to \$173.7m.

### Minara Resources Limited (MRE)

<b>Portfolio Contribution</b>	+0.08%
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Like Jubilee, Minara Resources benefited from strong nickel prices over the month. Nevertheless, quarterly production to 30 June 2006 was below market expectations and ongoing problems remain at the company's plant which are not expected to be fully rectified until September 2007. The company remains highly leveraged to nickel prices but operational risks remain and consequently Bellwether has exited its holding in the stock.

## SIGNIFICANT PURCHASES AND SALES

Purchases	Sales
<b>Macquarie Airports</b>	<b>Stockland</b>
<b>Cabcharge</b>	<b>Macquarie Airports</b>
<b>Origin Energy</b>	<b>Lihir Gold</b>
<b>Downer EDI</b>	<b>BHP Billiton</b>
<b>Skilled Group</b>	<b>CSR</b>

## NEGATIVE CONTRIBUTORS

### Babcock and Brown Limited (BNB)

<b>Portfolio Contribution</b>	-1.08%
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Babcock and Brown underwent a price consolidation phase after experiencing strong share price appreciation since February 2006. This is quite normal for strongly growing companies and allows new investors to enter the stock, and hence form a new expectation base while the stock experiences a short term share price pull back. The company's outlook remains unchanged, although rising interest rates and market nervousness, if prolonged, is not conducive for merchant banking activities.

### BHP Limited (BHP)

<b>Portfolio Contribution</b>	-0.53%
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As with most resource stocks, BHP Billiton is undergoing a consolidation phase following commodity price declines of mid May and increased market volatility. The company is expected to report a significant lift in profitability for fiscal '05/06 shortly and commodity prices have stabilised in recent weeks. Strike action at the company's majority owned Escondida mine in Chile may impact upon short term profitability in the '06/07 financial year, offset partially by the resultant lift in world copper prices due to production shortfalls.

### Seek Limited (SEK)

<b>Portfolio Contribution</b>	-0.45%
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Like Babcock and Brown, Seek is also undergoing a share price consolidation phase following a strong share price rally witnessed since April 2005 when the company first listed on the ASX. Internet job vacancies continue to grow at a much faster rate than newspaper job vacancies and therefore SEK continue to gain market share. Nevertheless, the absolute rate of job vacancy growth has slowed in recent months on a trend basis.

## TOP TEN HOLDINGS

Stock	B/Mark	Fund
<b>BHP Billiton Limited (BHP)</b>	10.07%	12.08%
<b>Babcock and Brown Limited (BNB)</b>	0.26%	8.84%
<b>Australian Stock Exchange Limited (ASX)</b>	0.57%	7.80%
<b>Rio Tinto Limited (RIO)</b>	2.18%	6.20%
<b>Oxiana Limited (OXR)</b>	0.43%	5.24%
<b>Australia &amp; New Zealand Banking Group (ANZ)</b>	4.80%	4.41%
<b>Westpac Banking Corporation (WBC)</b>	4.20%	3.95%
<b>Woodside Petroleum Limited (WPL)</b>	1.95%	3.51%
<b>Oil Search Limited (OSH)</b>	0.31%	3.49%
<b>Lihir Gold Limited (LHG)</b>	0.35%	3.33%
<b>Top Ten</b>		58.85%
<b>Other Stocks</b>		30.75%
<b>Cash</b>		10.40%
<b>Total</b>		<b>100.0%</b>

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