



# BELLWETHER PARTNERS LIMITED Australian Share Fund

March 2006

|                           |  |
|---------------------------|--|
| <b>Investment Manager</b> | Bellwether Partners Limited<br>ASFL: 238460  |
| <b>Contact</b>            | Bruce Bell<br>Ph. (03) 9661 0818<br>Level 9, 63 Exhibition Street<br>Melbourne Victoria 3000<br>Phone: (03) 9661 0888<br>Email: mail@bellwether.com.au<br>Web: www.bellwether.com.au |
| <b>Fund Inception</b>     | 11 August 2004   |
| <b>Benchmark</b>          | S&P/ASX 300 Accumulation Index   |
| <b>No. Stocks Held</b>    | 30   |

## UNIT PRICE as at 31 March 2006

|                   |          |
|-------------------|----------|
| <b>NAV Price</b>  | \$1.4288 |
| <b>Buy Price</b>  | \$1.4338 |
| <b>Sell Price</b> | \$1.4238 |

## PERFORMANCE STATISTICS

| Periods ending 31 March 2006 | 1 month      | 3 months     | 1 year        | Since Inception (p.a) |
|------------------------------|--------------|--------------|---------------|-----------------------|
| <b>Fund Return (Gross)</b>   | 8.32%        | 14.24%       | 43.57%        | 42.54%                |
| <b>Benchmark*</b>            | 4.77%        | 9.13%        | 30.22%        | 31.90%                |
| <b>Out/Under Performance</b> | <b>3.55%</b> | <b>5.11%</b> | <b>13.35%</b> | <b>10.63%</b>         |

\* S&P/ASX 300 Accumulation Index

## OVERVIEW

The Australian Equities market enjoyed robust gains in March, the S&P/ASX 300 rising 4.77%. During the month markets again focussed on globally influenced macro-economic events as evidenced by strong rises in metals and energy prices. The market reacted positively to retail trade figures for February showing a 0.7% rise against the forecast 0.3% gain, while private sector credit rose 1.4% and building approvals jumped 2.2% in the same month.

The Materials (+7.8%), Energy (+5.7%) and Technology (2.0%) sectors outperformed while Telecommunications (-7.2%), REIT's (-5.3%) and Utilities (-4.9%) posted negative returns.

The Australian Share Fund portfolio added a further 3.55% onto the benchmark return for March, a gross performance of 8.32%. Bellwether's medium term positive view of the resource sector saw excellent returns from exposures to leading base metal, gold and energy plays, which have been positioned in the portfolio for some time. Although month to month price movements in resource stocks can be volatile, as seen in February, the medium term performance and outlook for this sector remains very strong.

## OUTLOOK

Positive outlooks for economic growth in Asia, particularly China and Japan, are expected to continue to fuel strong Australian supplied demand for raw materials (iron ore, coking coal, copper, nickel, aluminium & zinc) as well as ensuring ongoing demand growth in energy inputs such as steaming coal, LNG and uranium in coming months.

Reductions in LME inventories of base metals (with the exception of lead) in recent weeks has ensured strong price growth as customers strive to ensure they maintain adequate consumer inventories to meet finished product demand. This is particularly apparent in the zinc market where LME inventories are down to 280,000 tonnes, a 29% drop on levels since year end 2005. Tightening market conditions are expected to see a 10 to 15% increase in iron ore prices, while coal prices are looking for pricing rollover on balance.

From a geo-political and global macro-economic perspective, 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.

Domestically, the Australian economy continues on its remarkable enduring and stable path. With domestic inflation at 2.1% core and 2.6% headline, retail sales, building approvals and private sector credit data reporting encouraging trends, the domestic economy remains in fine shape to support strong business conditions. Rising raw material and energy prices may however impact upon manufacturers and packaging company cost bases.

Domestic interest rates continue to remain steady at 5.5%, however the RBA has retained its tightening bias and the next move, whenever that may be, will be an increase in interest rates rather than a decline.

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>ALL</b> | <b>MBL</b> |
| <b>ORG</b> | -          |
| <b>ASX</b> | -          |
| <b>ANZ</b> | -          |
| <b>WBC</b> | -          |

## POSITIVE CONTRIBUTORS

### Oxiana Limited (OXR)

|                               |        |
|-------------------------------|--------|
| <b>Portfolio Contribution</b> | +1.49% |
|-------------------------------|--------|

Oxiana enjoyed a very strong month, rising 34.4% on the back of very strong copper, gold and zinc prices. The company also announced a significant lift in its resource base of these commodities with ongoing drilling expected to further lift resource and reserve figures in 2006. Bellwether has held OXR for the last quarter and continue to see value given strong underlying demand fundamentals.

### Zinifex Limited (ZFX)

|                               |        |
|-------------------------------|--------|
| <b>Portfolio Contribution</b> | +1.13% |
|-------------------------------|--------|

Zinifex, like Oxiana, benefited from strong metals prices during March but in this case it was the zinc price rising 16.8% that propelled Zinifex to record share price highs. Zinifex also benefited from rising silver prices as a by product of zinc mining output. The relatively pure play exposure to a largely single commodity provides maximum leverage to any rise in the underlying commodity price but equally exposes the share price to downside risk should the commodity price fall. The outlook for zinc remains very positive in the foreseeable future and we continue to see ZFX as an attractive investment at current valuations.

### SFE Corporation (SFE)

|                               |        |
|-------------------------------|--------|
| <b>Portfolio Contribution</b> | +0.89% |
|-------------------------------|--------|

SFE Corporation saw its share price rise 30.1% in March, largely due to an agreed and friendly proposed merger announced with Australian Stock Exchange (ASX). The proposal of 0.51 ASX shares for each SFE share links SFE's share price to that of ASX and represents a 21% premium to the average weighted share price of SFE over the last year compared to ASX. Trading volumes in March were very strong with turnover up 30.9% on pcp and implying year to date growth rates of 18.4%.

### Babcock & Brown Limited (BNB)

|                               |        |
|-------------------------------|--------|
| <b>Portfolio Contribution</b> | +0.58% |
|-------------------------------|--------|

Babcock and Brown rose 6.75% over the month subsequent to a \$400 million sell-down by staff and directors. During March the 'mini Macquarie' also announced their first foray into the US real estate market, investing a multi-property portfolio through Alliance Holdings. Bellwether has been weighted heavily toward BNB consistently since its listing and we believe that it remains a solid investment.

## NEGATIVE CONTRIBUTORS

### Transurban Group (TCL)

|                               |        |
|-------------------------------|--------|
| <b>Portfolio Contribution</b> | -0.12% |
|-------------------------------|--------|

Toll road operator Transurban had a difficult month, a drop in price of -5.60% detracting from portfolio return. Analyst consensus during the month moved toward favouring TCL over rival Macquarie Bank given their tighter fee structure and the maturity of key toll roads; Melbourne's CityLink and the M2 Motorway in Sydney. The new M7 motorway in Sydney is rapidly returning to the traffic levels it experienced during its first toll-free month of operation and should do well. We continue to hold TCL in our portfolio.

### Macquarie Bank Limited (MBL)

|                               |        |
|-------------------------------|--------|
| <b>Portfolio Contribution</b> | -0.12% |
|-------------------------------|--------|

After performing strongly from late 2002 to September 2005, Macquarie Bank has been undergoing a market induced reality check as its business model is further scrutinised to further identify strong growth opportunities from a now enlarged base. With a number of MBL's offshoots exhibiting some unit price declines or sideways movements in recent months, the possibility of performance fee flow to MBL has lessened in the near term. The increasing possibility of rising interest rates in the medium term also has an adverse affect on infrastructure and utility valuations. Given this limited remaining upside we exited our position intra-month.

## TOP TEN HOLDINGS

| Stock  | B/Mark | Fund          |
|--|--------|---------------|
| <b>Babcock &amp; Brown Limited (BNB)</b>               | 0.24%  | 8.80%         |
| <b>Zinifex Limited (ZFX)</b>                           | 0.48%  | 5.39%         |
| <b>Australia &amp; New Zealand Banking Group (ANZ)</b> | 4.90%  | 4.82%         |
| <b>Oxiana Limited (OXR)</b>                            | 0.37%  | 4.80%         |
| <b>Westpac Banking Corporation (WBC)</b>               | 4.40%  | 4.45%         |
| <b>ASX Limited (ASX)</b>                               | 0.34%  | 4.20%         |
| <b>Aristocrat Leisure Limited (ALL)</b>                | 0.52%  | 4.16%         |
| <b>Woodside Petroleum Limited (WPL)</b>                | 2.03%  | 3.89%         |
| <b>SFE Corporation Limited (SFE)</b>                   | 0.21%  | 3.84%         |
| <b>Oil Search Limited (OSH)</b>                        | 0.37%  | 3.48%         |
| <b>Top Ten</b>   |        | <b>47.83%</b> |
| <b>Other Stocks</b>                                    |        | <b>48.91%</b> |
| <b>Cash</b>  |        | <b>3.26%</b>  |
| <b>Total</b>   |        | <b>100.0%</b> |