



BELLWETHER PARTNERS LIMITED Australian Share Fund

May 2006

UNIT PRICE as at 31 May 2006

NAV Price	\$1.4289
Buy Price	\$1.4340
Sell Price	\$1.4240

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Fund Inception	11 August 2004
Benchmark	S&P/ASX 300 Accumulation Index
No. Stocks Held	26

PERFORMANCE STATISTICS

Periods ending 31 May 2006	1 month	3 months	1 year	Since Inception (p.a)
Fund Return (Gross)	-1.50%	8.56%	42.53%	38.18%
Benchmark*	-4.74%	2.41%	27.33%	27.45%
Out/Under Performance	3.24%	6.16%	15.20%	10.74%

* S&P/ASX 300 Accumulation Index

OVERVIEW

Driven by overseas events, the Australian Equity market entered a period of high volatility and uncertainty in May, the S&P/ASX 300 dropping 4.74% by month end. Negative sentiment flooded the market as investors became increasingly nervous about global inflationary pressures and the ensuing impact on rising interest rates. The resource sector boom of recent months faltered in May, with mining stocks taking the brunt of the selloff. Sharp fluctuations in base and precious metal prices drove the sector downward from high, speculative price levels achieved in April and early May. Commodity prices were unstable with base and precious metals markets losing between 10 and 20% over the month, despite having risen strongly in the first two weeks of the period.

Economic data from the US suggested that consumer confidence is softening, with high oil prices and a slowing housing market restricting discretionary spending. Domestically, the RBA raised interest rates by 0.25% in early May to offset inflationary pressures. This move was anticipated by the market and did little to reduce concerns that the international trend towards inflation driven rising interest rates will eventually soften consumption and therefore demand.

The REIT (+3.3%), Consumer Staples (+2.8%) and Consumer Discretionary (+2.5%) sectors outperformed while Utilities (-4.2%), Healthcare (-4.0%) and Telecommunication sectors (-3.5%) lagged.

The Bellwether Australian Share Fund ended the month down 1.50% (gross), significantly outperforming the benchmark (-4.74%) by 3.24%. The investment team engaged in minimal trading over the month and increased the Fund's cash position to 13.55% as a defensive measure. Key long term holdings such as Babcock and Brown shored up the portfolio, with detractors minimised despite a high allocation toward resources and the materials sector. A timely divestment of Zinifex mid month also contributed to overall Portfolio performance.

OUTLOOK

The current market focus is one of contemplation over inflationary impacts emerging globally and the resultant impact on interest rates, contrasted with the current strong economic growth picture of Asia and to date strong performance of the US economy. Although the RBA left rates unchanged at its meeting in early June, markets expect a further rate rise domestically in coming months with the 90 day bills trading above the 5.75% cash rate.

Chinese, Japanese and Indian economies continue to grow strongly, requiring increased levels of raw materials and energy to fuel this growth. Deferred responses from the supply side of these requirements, indicates commodity prices, on fundamentals, are expected to remain at healthy levels for a prolonged period. The weight of money influence of hedge funds and long institutional funds which have recently introduced direct commodity investing as a new asset class in their Portfolios, is nevertheless clouding short term commodity price behaviour, creating extreme day to day and week to week volatility in some markets.

This volatility is creating an increased level of caution amongst investors, leading to a higher cost of capital requirement and placing some downward pressure on asset pricing. Inflationary trends (energy, raw materials, wages) in America, combined with a slowing housing market is expected to place increased pressure on consumption in coming months. Given that approximately 68% of US GDP is derived from consumer spending, a slowing of US economic activity from the very strong 1Q06 levels is expected. Recent US economic data of flagging jobs growth, housing starts and factory orders is suggesting sustained high oil prices are (finally) beginning to impact upon economic activity.

Coming months are likely to present the investment community with heightened challenges. A combination of selective stock picking based on fundamental disciplined analysis, overlaid with behavioural finance interplays, combined with strong macro-economic analysis can create rewarding opportunities under current volatile market conditions.

POSITIVE CONTRIBUTORS

Zinifex Limited (ZFX)

Portfolio Contribution	+1.42%
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Zinifex reflected the generally volatile resource sector behaviour in May, rising strongly over the first half of the month (up 30%) only to decline in the last half of the period (down 12%). A timely exit of the stock mid month by the Fund ensured strong share price gains were locked in, leaving the Fund with no exposure during the sharp correction which followed. Significant commodity price volatility was the main driver to this share price behaviour as hedge and long funds invested in direct precious and base metals.

Babcock & Brown Limited (BNB)

Portfolio Contribution	+0.77%
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Babcock and Brown continued its strong share price run in May, gaining 9.29% and contributing 0.77% to the Fund performance. The high-growth stock continues to gain favour in the market, with the announcement during the company's AGM that EPS growth expectations have been upgraded to at least 35% for the full year, an improvement on the previously announced 20%. Management comments suggest that BNB is likely to create up to five new investment funds before the end of the year.

Seek Limited (SEK)

Portfolio Contribution	+0.39%
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Seek gained 15.87% over the month, following the group's FY06 Outlook and Conference briefing early in the month. Comments by CEO Paul Bassat supported Bellwether's view that SEK's strong market share and increasing profit margin make the stock undervalued at current levels, given the continuing strength in the online employment market. SEK is anticipating and EBITDA of \$46-47 million in FY06, ahead of previous guidance at around the \$43 million level.

SIGNIFICANT PURCHASES AND SALES

Purchases	Sales
COA	ZFX
-	ALL
-	-
-	-
-	-

NEGATIVE CONTRIBUTORS

Oxiana Limited (OXR)

Portfolio Contribution	-0.63%
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Oxiana closely tracked the copper and gold prices during May, ending the month down 12.02%. Fundamentals for the stock remain strong however in the medium term, given comments during the month that planning for the \$530 million-plus Prominent Hill project in South Australia is progressing rapidly with construction set to commence in September/October, pending board approval in August.

Macarthur Coal Limited (MCC)

Portfolio Contribution	-0.41%
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Macarthur Coal also closed the month weaker, investor concern about the coal industry's outlook driving prices down by 15.15%. Nevertheless, MCC retains strong medium term fundamentals within a buoyant coal market and is trading at a discount to market, with a forecast P/E of 10.1 times 2007 earnings. Macarthur Coal currently operates two mines, Coppabella and Moovale, in the Bowen Basin region of central Queensland, with another, Olive Downs, due to start operations in the December quarter of this year.

Westpac Bank Limited (WBC)

Portfolio Contribution	-0.38%
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Westpac lost 8.61% in May after rising strongly in previous months. A degree of profit taking, combined with the reaction to the RBA lifting domestic interest rates by 25 basis points early in the month influenced the share price performance. WBC reported 1H06 results during the month, with EPS up 12%, the key driver being the Australian retail bank division.

TOP TEN HOLDINGS

Stock	B/Mark	Fund
BHP Billiton Limited (BHP)	10.51%	8.97%
Babcock and Brown Limited (BNB)	0.26%	8.96%
Rio Tinto Limited (RIO)	2.94%	6.38%
Oxiana Limited (OXR)	0.43%	5.05%
Australia & New Zealand Banking Group (ANZ)	5.02%	4.53%
Westpac Banking Corporation (WBC)	4.36%	4.03%
Australian Stock Exchange Limited (ASX)	0.32%	3.68%
Woodside Petroleum Limited (WPL)	2.01%	3.54%
SFE Limited (SFE)	0.21%	3.45%
Oil Search Limited (OSH)	0.39%	3.37%
Top Ten		51.96%
Other Stocks		34.49%
Cash		13.55%
Total		100.0%

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