



# BELLWETHER PARTNERS LIMITED Australian Share Fund

October 2006

## UNIT PRICE as at 31 October 2006

<b>NAV Price</b>	\$1.3848
<b>Buy Price</b>	\$1.3897
<b>Sell Price</b>	\$1.3800

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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 October 2006	1 month	3 months	1 year	Since Inception (p.a)
<b>Fund Return (Gross)</b>	5.53%	5.14%	30.89%	33.03%
<b>Benchmark*</b>	4.71%	9.63%	26.33%	27.08%
<b>Out/Under Performance</b>	<b>0.82%</b>	<b>-4.49%</b>	<b>4.56%</b>	<b>5.95%</b>

\* S&P/ASX 300 Accumulation Index

## OVERVIEW

The Australian Equities market rallied strongly in October with the S&P/ASX 300 gaining 4.71% as commodity prices rebounded and the US economic outlook stabilised. Takeover activity and speculation continued to dominate news flow in October, boosting key indices to a record high.

Oil prices again fell during the month, triggering a rally in Industrials with high fuel costs, notably transportation and manufacturing stocks whose outlook statements had previously accounted for climbing oil prices. Nevertheless, market focus shifted away from typically defensive Industrials as investors regained confidence in the equity outlook, leading to a moderate rally of 2.8% within the sector. Stocks which had been boosted by higher oil prices in recent months lost ground in October. Oil producers Woodside, Santos and Caltex were among the worst performers and contributed to the underperformance of the Energy sector which posted a modest 0.7% gain.

Takeover speculation was rife, particularly in the media sector in response to the relaxation of cross-ownership and foreign ownership rules. Speculative transactions boosted media stocks, with APN News and Media, John Fairfax Holdings and Western Australian Newspapers enjoying double digit gains and boosting the Consumer Discretionary sector to 6.6% growth.

The Materials sector again outperformed, gaining 9.5% as the Chinese demand story continues to fuel growth within the sector. News flow negated recent fears that the Chinese economy was slowing. Government introduced measures to cool recent economic growth appear marginal as China's economy continues to grow at double the global average.

The Bellwether Partners Australian Share Fund outperformed the S&P/ASX 300 in October by 0.82%, returning 5.53% (Gross). The Fund's strategic decision to rotate within the Financials sector from interest rate sensitive and yield based property stocks early in the month into retail banks proved sound as those sectors (property, infrastructure and utilities) lagged and would have otherwise detracted from returns. The resulting increased allocation to Financials and large cap resource stocks contributed most value, such as key holdings (RIO, BHP) in the Materials sector.

## OUTLOOK

Investors are returning to the market with higher confidence in equity performance as concerns over the health of the US economy ease. US consumption trends remain at a reasonable level while jobs growth is solid. We believe that based on a soft US landing, US GDP and housing data will not have a material impact upon commodity pricing at this point.

Coupled with the continuing Chinese economic growth, these factors indicate that the outlook for commodities is likely to remain strong in coming months. Annual iron ore and coal price negotiations are due to commence in late November/early December which will provide an indicator for the direction of the commodity market into 1H07.

Domestically, the early November meeting of the Reserve Bank saw a further 25 basis point interest rate increase. While we expected the rise to be passed in November we anticipate that the RBA will hold rates steady in coming months as inflationary pressures ease. Despite lower oil prices leading to the easing of input costs in the short term, the interest rate rise may dampen consumer spending in the Consumer Discretionary sector into the festive season.

We expect November to continue to provide opportunity for out performance as the volatility of recent months is countered by increased investor confidence in the equity market. We continue to hold an overweight position in Materials, Energy and Financials while seeking to reduce our exposure to Consumer Discretionary. We are increasingly responsive to the inflection points identified at the stock level in our quantitative model; strict adherence to these signals should see further value add in November and December.

## POSITIVE CONTRIBUTORS

### Jubilee Mines NL (JBM)

<b>Portfolio Contribution</b>	+0.72%
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Bullish market sentiment for base metals pushed Jubilee Mines 27.5% higher in October. JBM locked in gains as the nickel price tested new highs over the month. Jubilee's ranking in our quantitative model continues to improve in response to the nickel outlook and was ranked number 2 in October.

### BHP Billiton Limited (BHP)

<b>Portfolio Contribution</b>	+0.70%
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BHP Billiton gained 6.4% during the month despite production reporting that came in below consensus expectations. A return to positive sentiment in the materials sector pushed the diversified resources house higher, with Chinese demand expected to remain a solid driver for growth within the sector. The Fund recovered value from BHP in October, retaining our holding at the previous month end on the basis of a high turnaround ranking.

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

<b>Portfolio Contribution</b>	+0.67%
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ANZ Banking Group rose 8.2% in October following the announcement of the bank's full year earnings result to September 30, which came in above analyst forecast at \$3,560 million. Retail banking performance drove revenue growth, leading to an increase of revenue forecasts for FY07 to 7 to 10 percent from 7 to 9 percent.

## SIGNIFICANT PURCHASES AND SALES

Purchases	Sales
<b>AXA Asia Pacific</b>	<b>Billabong</b>
<b>Woolworths Limited</b>	<b>Babcock &amp; Brown</b>
<b>Paladin Resources</b>	<b>Macarthur Coal</b>
<b>Billabong</b>	<b>Stockland Group</b>
<b>Downer EDI</b>	<b>Cabcharge</b>

## NEGATIVE CONTRIBUTORS

### Woodside Petroleum Limited (WPL)

<b>Portfolio Contribution</b>	-0.12%
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Woodside Petroleum dipped 4.3% at month end following 3Q production report outlook comments which disappointed the market. WPL's \$1.1 billion Otway project is delayed and will not contribute to production this year, while their Enfield project has been hampered by the presence of water in a production well and reserve downgrades at Chinquetti are imminent.

### Seek Limited (SEK)

<b>Portfolio Contribution</b>	-0.11%
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Seek gained 5.4% in October, advanced by newsflow surrounding the online advertiser's AGM during the month and speculative trading within the media sector. SEK's position in the Fund's quantitative model dropped dramatically intra month, its third quartile rank triggering a sell down of our holding.

### AXA Asia Pacific Limited (AXA)

<b>Portfolio Contribution</b>	-0.08%
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AXA rose 2.5% over the month on the back of their 3Q sales results, with superannuation tax reforms continuing to drive retail investment growth. The Fund purchased AXA late in the month as a strategic buy given its high quantitative ranking.

## TOP TEN HOLDINGS

Stock	B/Mark	Fund
<b>BHP Billiton Limited (BHP)</b>	9.09%	11.20%
<b>Australia &amp; New Zealand Banking Group (ANZ)</b>	5.07%	8.91%
<b>Commonwealth Bank of Australia (CBA)</b>	5.87%	7.99%
<b>Westpac Banking Corporation (WBC)</b>	4.20%	6.41%
<b>Rio Tinto Limited (RIO)</b>	2.12%	6.30%
<b>St George Bank Limited (SGB)</b>	1.62%	5.86%
<b>Woolworths Limited (WOW)</b>	2.37%	4.68%
<b>QBE Insurance Group Limited (QBE)</b>	1.88%	4.63%
<b>AXA Asia Pacific (AXA)</b>	0.59%	3.95%
<b>Australian Stock Exchange Limited (ASX)</b>	0.57%	3.48%
<b>Top Ten</b>		63.41%
<b>Other Stocks</b>		33.05%
<b>Cash</b>		3.54%
<b>Total</b>		100.0%