

**Key Details**

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<b>Fund Inception</b>	11 August 2004
<b>Benchmark</b>	S&P/ASX 300 Accumulation Index
<b>Number of Stocks Held</b>	23

## BELLWETHER PARTNERS LIMITED

### Australian Share Fund

### December 2008

**Unit Price: 31 December 2008**

<b>NAV Price</b>	0.9271
<b>Buy Price</b>	0.9303
<b>Sell Price</b>	0.9239

**Australian Share Fund Performance**

To 31 December 2008	1 Month	3 Months	1 Year	2 Years (pa)	3 Years (pa)	4 Years (pa)	Inception (pa)
<b>Fund Return (Gross)</b>	0.80%	-15.00%	-34.68%	-9.90%	1.51%	9.01%	11.84%
<b>S&amp;P/ASX300 Accumulation Index</b>	-0.14%	-18.48%	-38.92%	-15.75%	-4.03%	2.00%	5.67%
<b>Out/Underperformance</b>	0.94%	3.48%	4.24%	5.85%	5.54%	7.02%	6.17%

Performance numbers for periods of greater than one year have been annualized. Fund inception: 11 August 2004.

**OVERVIEW**

2008 !!! It's over. In share market terms it was the worst year in 100 years. Even 1930 didn't see the market fall as much as 2008. However we believe it is a light at the end of the tunnel rather than another train coming towards us. The S&P/ASX 300 Accumulation Index finished down again in December but only by 0.14%. The market actually finished 11% above its low. Many believe the stimulus packages and reduced interest rates being put in place by all major Governments will see a slow bottoming of economic activity over the next 12 to 18 months. As share markets historically have moved well ahead of the economy, 2009 may well prove a strong year in the market as most others have been after an extraordinarily bad year. Some examples from the Australian market are 1975 up 49% after a 32% decline the year before, 1983 up 60% after an 18% decline and 1991 up 29% after a 22% decline.

December did see some welcome stabilisation. Investors were prepared to add some risk to their portfolios with materials, consumer discretionary, energy, industrials and information technology showing positive returns. The main losers were property trusts (concern about valuations of commercial property) and Telecoms (Telstra being excluded from the new broadband tender process).

In terms of economics, stimulation in Australia saw interest rates further reduced by another 100 basis points to 4.25%, bringing easing in the past 4 months to 300 basis points. The Aussie currency also stabilised at just below 70c against the US\$ after getting close to 60c over the past 3 months or so.

The Bellwether Australian Share Fund again outperformed the market. We are very pleased to report that your Share Fund showed a positive return in December of 0.80% against a market return of negative 0.14%. We regard the investment team's performance in such trying circumstances as exceptionally good - particularly when looked at from a longer term perspective where the Fund outperformed by 4.24% over the past 12 months and by 7.02% per annum over the last 4 years.

**OUTLOOK**

2009 !!! There is no question that economic conditions and activity will be sluggish at best and many economies will be fighting a serious recession. BUT... investor sentiment is low, it is well recognised that corporate profits will decline, massive selling by hedge funds, mutual funds, and commodity funds may be reaching a high point as leverage is reduced and redemptions decline. The level of cash available for investment is growing each day through ongoing saving and superannuation plans. At some stage investors will release some of this cash into "real" assets such as shares, property, etc.

Governments still have much to do in terms of fiscal stimulus as so far initiatives to provide banking sector support amounts to around 6.5% of the total OECD economy. In previous systemic banking crises from 1970 to 2007 the level of government intervention to resolve such crises has averaged around 13% of the relevant economy.

The 2009 macro position therefore revolves around the trade-off between poor news flow (economic and profits), versus increasingly attractive valuations for shares.

We continue to believe in the longer term outlook for commodity prices and resource shares and while the Australian dollar is now lower it will continue to provide short term support for Australia's exporters. A further

advantage is that export infrastructure needs are slowly being addressed.

In summary 2009 could possibly be another frustrating year with lots of bad economic news and other news that will generate some hope and improved sentiment. We remain of the view that today's prices represent an outstanding long term opportunity.

## POSITIVE CONTRIBUTORS

### Commonwealth Bank of Australia Limited (CBA)\*

**Portfolio Contribution** +1.03%

CBA shares fell 15.2% during the month. CBA had a disastrous first attempt at an equity raising through Merrill Lynch at \$27 a share on 16 December. CBA was forced to withdraw the raising when it subsequently revealed to the market that its bad debts provision had increased from a previously stated range of 40-50bps to 60bp or \$2.5bn. CBA finally completed the raising the next day through UBS at \$26. In other news from CBA during the month, the BankWest acquisition was completed as well as a \$2bn acquisition of Wizard originated home loans. As CBA is not held in the portfolio, we benefited from this large fall.

### Newcrest Mining Limited (NCM)

**Portfolio Contribution** +0.81%

The gold price increased by 6% to US\$880 in December. This follows a 12% increase in November. With the gold price moving up most gold stocks had a very good month and Newcrest, being Australia's premier gold miner, had the best month with an increase of 38% in its share price. Newcrest updated investors during the month with a presentation in Sydney that maintained their positive outlook.

### David Jones Limited (DJS)

**Portfolio Contribution** +0.30%

David Jones's share price moved significantly higher during the month of December. It finished up 27.2% in the end on no specific news flow. The retail sector was buoyed by the \$8.4bn Federal Government's fiscal stimulus package which was released on 8 December. Retail sales for the December month are likely to have held up well given this additional spending power in the hands of some consumers.

## NEGATIVE CONTRIBUTORS

### Rio Tinto Limited (RIO)

**Portfolio Contribution** -0.38%

RIO Tinto's share price ended the month 18.5% lower on concerns over the company's debt position and further deterioration in the outlook for commodities. The company announced a number of measures to reduce its debt by US\$10bn by the end of 2009. RIO will reduce planned capital expenditure and its global headcount by 14,000 as part of this process.

### Telstra Corporation (TLS)

**Portfolio Contribution** -0.23%

Telstra fell nearly 6% over the month after it was excluded from the government's NBN RFP process. The NBN Expert Panel determined that Telstra had failed to adhere to one of the five mandatory requirements of the bidding process. The missed requirement related to not showing how smaller companies would be included in the design and construction of the NBN.

### Lihir Gold Limited (LGL)\*

**Portfolio Contribution** -0.18%

Lihir's performance was nearly as good as Newcrest's with the share price appreciating close to 37% during December. As Lihir is not held in the portfolio we failed to benefit from this solid month for the stock.

### Top Five Holdings: 31 December 2008

Stock	Fund (%)	B/Mark (%)
BHP Billiton Limited (BHP)	14.75%	12.84%
Westpac Banking Corporation (WBC)	9.14%	6.13%
Telstra Corporation Limited (TLS)	7.97%	5.03%
Woolworths Limited (WOW)	6.67%	4.11%
National Australia Bank Limited (NAB)	6.67%	4.91%
<b>Top Five</b>	<b>45.20%</b>	-
<b>Other Stocks</b>	<b>49.49%</b>	-
<b>Cash</b>	<b>5.31%</b>	-
<b>Total</b>	<b>100.00%</b>	-

\* Stocks with an asterisk are not held in the Australian Share Fund.

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