BELLWETHER

-n. one that takes the lead or initiative

BELLWETHER PARTNERS LIMITED
Australian Share Fund
May 2010

Key Details	
Investment Manager	Bellwether Partners Limited AFSL: 238460 Level 9, 63 Exhibition Street Melbourne Victoria 3000
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Fund Inception	11 August 2004
Benchmark	S&P/ASX 300 Accumulation Index
Number of Stocks Held	29

Unit Price: 31 May 2010	
NAV Price	1.1267
Buy Price	1.1306
Sell Price	1.1228

Bellwether Partners Australian Share Fund Performance

To 31 May 2010	1 Month	3 Months	1 Year	2 Years (pa)	3 Years (pa)	5 Years (pa)	Inception (pa)
Fund Return (Gross)	-8.34%	-4.68%	20.00%	-2.71%	-1.89%	11.12%	13.89%
S&P/ASX 300 Accumulation Index	-7.54%	-3.55%	20.72%	-7.53%	-7.25%	6.04%	8.66%
Out/Underperformance	-0.80%	-1.13%	-0.73%	4.83%	5.36%	5.08%	5.23%

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

OVERVIEW

After a solid recovery in 2009 from the gloom of 2008 the market has had another turbulent few months, culminating with a 7.5% fall in May. Bloomberg data shows that the Australian market (S&P/ASX 200 Index) has fallen 9.1% this year, which places it in 77th position out of the primary 93 world sharemarkets and this is despite our relatively strong economy. The reasons for weak global markets have been the well publicised Greek debt crisis (there is serious concern also about other EU participants such as Spain, Portugal, Italy and Ireland); the tension in North Korea and Israel/Palestine; the hike in banks reserve requirement ratio by Beijing in order to slow bank lending and also whether the US economy will have the strength to support slowing growth almost everywhere else.

So why has Australia underperformed? The risk aversion caused by the above events led to a flight to the US Dollar, and away from riskier currencies. However another influence of our own making has been the perception of increased sovereign risk in Australia through lack of certainty about future Government intervention and regulation actions after the poorly received Resources Super Profits Tax (RSPT) proposal. Investors dislike uncertainty intensely and Australia has become uncertain in terms of public policy and offshore investors in particular have been heavy sellers of Australian resource stocks.

Defensive stocks generally outperformed with all major sectors selling off. Financials and Industrials underperformed, while Consumer Staples showed the most resistance falling only 1.2%.

Interest rates were increased by 0.25% again by the RBA making it 6 increases since the low of last year. The official cash rate is now 4.5%, and rates are now close to a historical average level. The Australian dollar fell by 8.8% to 84.32c against the US dollar, this was the largest fall amongst the major currencies. In fact the Australian dollar's performance for May was ranked 169 out of 174 amongst all currencies, base and precious metals, which is clear evidence investors acted negatively to the RSPT. Along with the weaker global trend, commodity prices fell substantially as slower global economic activity is expected. Oil fell 14.1% in May and the London Metals Index fell by 9.5%. Gold received some support as a "safe haven" asset.

The Bellwether Partners Australian Share Fund fell by 8.3% underperforming the broad market by 0.8%.

OUTLOOK

In historical terms the Australian sharemarket represents good value at current levels. The earnings outlook, price/earnings ratio and dividend yield all suggest the market is undervalued. However there remains considerable global uncertainty with several countries in Europe having sovereign debt issues, fears of China slowing and the US showing only slow growth (predominantly from Government spending). These issues will not be overcome quickly but as signs appear that progress is being made in debt reduction, while reasonable economic growth is being achieved, then markets will be supported. The task is not easy to achieve and while a couple of months ago conditions looked positive it is necessary now to show some caution until the forward path becomes clearer. Australia is not immune from the global issues and the support of overseas investors and lenders is critical. As has been well publicized, the resources sector requires global support and a stable political and operating environment if scheduled large projects are to proceed.

POSITIVE CONTRIBUTORS

ANZ Bank Limited (ANZ)*

Portfolio Contribution	+0.30%

ANZ fell by 5.7%, outperforming the Financials sector which fell by 10.6%. Fitch revised its rating outlook for ANZ from stable to positive, and this revision will assist ANZ in securing wholesale funding at a competitive interest rate. The banks had a poor month driven by negative offshore sentiment, flowing on from European Sovereign concerns. While Australian banks do not have material direct exposure to the Eurozone, the crisis has seen ballooning interbank borrowing rates, increasing investor concern for Australian banks given their large offshore funding needs.

ResMed Inc (RMD)

Portfolio Contribution	+0.13%

ResMed was actually one of a relatively few companies to rise in May with a 5.9% appreciation, outperforming the Healthcare sector which fell 4.0%. Their new S9 Autoset is being well received and demand is growing strongly.

Sonic Healthcare Limited (SHL)*

Portfolio Contribution	+0.12%

Sonic Healthcare fell a hefty 25.9% in May after the Government announced in the budget that pathology funding would be cut and co-payments were to be introduced. The company now expects profit to be 12 - 15% lower than consensus at the time.

NEGATIVE CONTRIBUTORS

Macarthur Coal Limited (MCC)

Portfolio Contribution	-0.46%

Softer sentiment towards China and uncertainty around the future tax regime caused resource shares to be weak over May and although Macarthur Coal was being suited by Peabody, that company reduced its offer from $16 to $15 per share for Macarthur. The Macarthur board rejected Peabody's proposal. For the month of May, Macarthur fell 23.1%, underperforming the Materials sector which fell by 5.9%.

Westpac Banking Corporation (WBC)

Portfolio Contribution	-0.34%

Westpac underperformed the Financials sector due to weakness in Treasury income and lower margins which led to a disappointing business result for the half year to March 2010. Westpac fell 13.2% compared with the Financials sector fall of 10.6%

Commonwealth Bank of Australia (CBA)

Portfolio Contribution	-0.32%

Commonwealth also underperformed the Financials index falling 12.2% in May. CBA released their 3Q10 trading update, with a cash NPAT of $1.5bn being at the bottom end of consensus forecasts. Higher funding costs and fee pressures led to reduced profit margins.

Top Five Holdings: 31 May 2010

Stock	Fund (%)	B/Mark (%)
BHP Billiton Limited (BHP)	11.89%	12.10%
Commonwealth Bank of Australia (CBA)	9.86%	7.50%
Westpac Banking Corporation (WBC)	8.60%	6.44%
National Australia Bank Limited (NAB)	6.86%	4.92%
Woolworths Limited (WOW)	5.07%	3.11%
Top Five	42.29%	-
Other Stocks	55.28%	-
Cash	2.43%	-
Total	100.00%	-

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