

Private Wealth Management

Investment Strategy Bulletin

Australian Equities: Portfolio Strategy Review

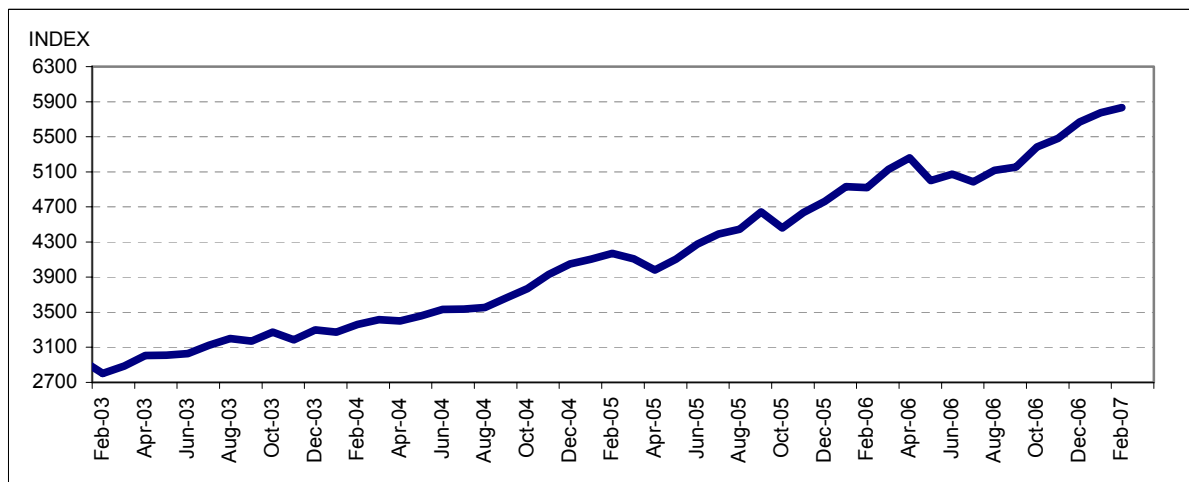
February 2007

- The ASX200 ended the month 1.6% higher, despite a significant sell-off on the last trading day. Over the year to February, the Industrials delivered a gain of 24.9% while the Resources were up 18.1%. The Technology, Consumer Staples and REITs sectors outperformed while the Energy, Materials and Telecommunication sectors lagged.
- The earnings reporting season was the key highlight of February. GSJBW analysts increased fiscal 2007 EPS growth forecasts for the ASX300 Industrials from +8.5% to +10.2%. Nonetheless, we believe valuations within the Industrial universe continue to look expensive, both in absolute terms and relative to the level of interest rates. We recommend our clients do more selling than buying over the next three months.
- The AUD ended the month higher at US\$0.787 while the 10-year bond yield finished ~25 bp lower at 5.69%, on the back of a bond rally.

Accumulation Index Performance			
	1 Month	6 Month	12 Month
S&P/ASX 200	1.6%	16.3%	23.5%
S&P/ASX 200 Industrials	1.0%	19.1%	24.9%
S&P/ASX 200 Resources	4.1%	6.3%	18.1%
S&P/ASX Small Ordinaries	1.2%	21.3%	30.6%
Relative Index Performance to S&P/ASX 200			
Consumer Discretionary	-0.8%	4.1%	4.4%
Consumer Staples	4.7%	2.7%	13.3%
Energy	2.1%	-10.8%	-11.2%
Financials	-1.4%	-0.4%	0.6%
Health Care	0.0%	13.9%	-0.6%
Industrials	-1.4%	7.6%	3.5%
Information Technology	5.1%	12.5%	17.6%
Materials	2.0%	-6.4%	-6.3%
REITs	-2.3%	4.0%	9.8%
Telecommunications	2.2%	10.0%	-4.1%
Utilities	-3.2%	5.3%	4.2%

Source: GSJBW Research, IRESS

Australian Equity Market Performance: S&P/ASX 200 Index (February 2003 – February 2007)



Source: IRESS

Company Performance: Best and Worst Performing Large-Cap Equities

In February, the best and worst performing stocks (absolute share price returns) in the ASX 100 were as follows:

Best	% Change	Worst	% Change
Leighton Holdings	41.4%	Allco Finance Group	-16.8%
WorleyParsons	28.3%	A.B.C. Learning	-11.2%
Woolworths	14.5%	Resmed Inc	-9.8%
PaperlinX	13.8%	Symbion Health	-8.5%
Tattersall's	12.7%	GPT Group	-7.7%
CSL	11.8%	Insurance Australia	-7.6%
Downer EDI	11.4%	Toll Holdings	-7.5%
ASX	10.4%	Tabcorp Holdings	-7.5%
Computershare	9.5%	AGL Energy	-7.4%
Centro Properties	8.9%	Dyno Nobel	-7.1%

Source: IRESS

Significant Company/Economic News

Developers & Contractors

Analyst: Matthew McNee

□ Leighton Holdings (LEI): Short Term Marketperform; Long Term Hold

Share Price as at 28/02/07: \$31.10; Valuation: \$19.98

Leighton's first half net profit came in 49% higher than the previous corresponding period and exceeded most analysts' expectations. Management expects that the current level in the 'work in hand' book can be maintained for the "next few years" due to the strong pipeline of infrastructure and mining projects in Australia and also offshore opportunities in Asia. On the outlook, management upgraded its net profit guidance for the full year from +15% to +45% (at least) and revenue for the same period from \$11b to \$12b. Leighton was the best large cap performer for the month, up 41.4%.

Healthcare

Analyst: Hamish Tadgell

□ CSL Limited (CSL): Short Term Outperform; Long Term Hold

Share Price as at 28/02/07: \$77.65; Valuation: \$76.27

CSL exceeded market forecasts by reporting a 45% growth in first half net profit on the same period last year. The solid result was driven by margin improvement and leverage in CSL Behring and the rollout of Gardasil. Following a 10% upgrade in December, management upgraded fiscal 2007 net profit by a further 10% to between \$482-\$502m. CSL continues to anticipate stable to favourable market conditions for the plasma therapies business.

Resources

Analysts: Malcolm Southwood, Neil Goodwill & Ian Preston

□ BHP Billiton (BHP): Short Term Outperform; Long Term Buy

Share Price as at 28/02/07: \$27.13; Valuation: \$25.31

□ Rio Tinto (RIO): Short Term Outperform; Long Term Buy

Share Price as at 28/02/07: \$75.60; Valuation: \$77.16

□ Newcrest Mining (NCM): Short Term Marketperform; Long Term Buy

Share Price as at 28/02/07: \$22.55; Valuation: \$13.11

The copper price bounced back in February, after several months of decline, providing some support to BHP's and RIO's share prices. On the last trading day of the month, however, the ASX 200 was down ~2.7% on the back of weakness across global equity markets – BHP's share price was resilient and finished 4.2% higher for the month while RIO was down 1.3%. On the earnings front, both stocks posted solid results in February. BHP announced a US\$10 billion increase to the US\$3 billion capital management program announced in August last year. In other news, the gold price continued its recovery on market concerns about geopolitical tensions and increasing inflation, with the spot gold price up 4% for the month. Australian gold miner, Newcrest (+7.9%), posted an adjusted profit of \$70 million for the half year (above market expectations).

Diversified Financials

Analyst: Ryan Fisher

- **ASX Limited (ASX): Short Term Marketperform; Long Term Hold**
Share Price as at 28/02/07: \$41.85; Valuation: \$34.50
- **Computershare (CPU): Short Term Outperform; Long Term Buy**
Share Price as at 28/02/07: \$10.03; Valuation: \$9.35

ASX posted an impressive first half result driven by strong revenues (particularly from the Equities Trading business) and a good cost outcome. Indeed, costs were significantly lower than the market expected due to the accrual of greater staff and administrative savings, relating to pre-merger initiatives (with SFE Corporation) as well as post-merger synergies. Similarly, Computershare's first half result also impressed the market on the cost and revenue side. Importantly, management lifted its full year guidance significantly, expecting earnings per share to be about 50% higher than last year.

Economics

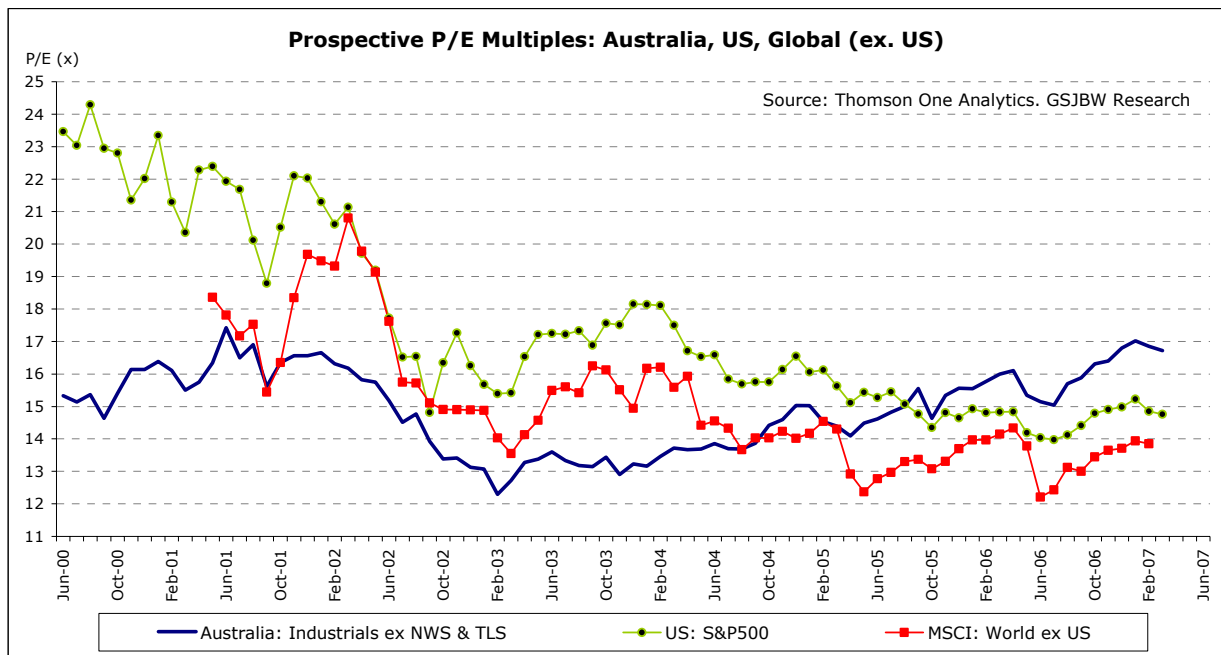
Analyst: Tim Toohey

□ Unemployment Rate

Although employment declined in January (consensus was expecting a rise), employment growth remains at a robust 3.0% year on year pace and the unemployment rate dipped to 4.5% from 4.6%. Forward looking indicators remain mixed. The ABS Jobs Vacancy data is suggesting that employment demand will likely remain strong near term although the vacancies are largely skewed to Western Australia. However, business surveys focused on the services side of the economy, such as the Performance of Services Index (PSI), and those focused on the industrial sectors, such as the Performance of Manufacturing Index (PMI), paint a picture of moderating employment demand.

Prospective P/E Multiples

The premium on which the Australian equity market is trading relative to the US and other global equity markets expanded further this month.



Australian Equities: Key Issues for Portfolio Strategy

- While the consensus is looking for another solid year for the global economy in 2007, such an outcome is yet to be locked-in. A sharp contraction in housing activity is now hitting the US economy (housing starts have fallen 28% since February 2006). This drag will be at its most material through the first half of 2007. To date, the balance of the US economy (i.e. consumer & business spending) and the balance of the world economy have not shown any material signs of being hurt by this slump. While we still believe the global economy will continue to perform relatively well into 2007 and 2008, there are likely to be times over the next 6 months where the credibility of this view will be tested (as we saw on February 28!). Accordingly, we expect global financial markets exhibit bouts of heightened volatility.
- Since mid-2006, global equity markets have performed strongly on the back of expanding PE multiples. The lower oil price has also assisted the uplift in investor confidence. We remain comfortable that the basic fundamentals for global markets are sound, but performance is likely to be more subdued and volatility more pronounced as investors work through the macro environment described above and some slippage in 2007 profit forecasts. (The latter is now coming through, led by the Energy and Technology sectors). While US interest rates appear to have peaked for this cycle, the unfolding slowdown in the global economy will need to clearly quell inflationary pressures for US rates to fall through 2007. Outside the US, Goldman Sachs Research is looking for further policy tightening in Europe, Japan and China.
- While Australia’s recent economic performance has been mixed, there has been sufficient strength in the nominal economy and private sector spending to underpin profit outcomes – at least for the large listed sector companies. Coming into 2007, however, private sector activity looks to be easing and the nominal environment is poised to weaken as the income injection from rising commodity prices starts to fade. Add in the drought – a risk that will quickly spread beyond the agricultural sector if it fails to rain next autumn, and we can only conclude that business conditions in Australia are going to deteriorate through 2007. After growth of 2.7% in FY06, GSJBW Research expects production (GDP) to expand by 2.5% in FY07 and 2.6% in FY08.
- Investors took comfort from the benign CPI figure for the December quarter (most core measures rose by ~0.5%). While the RBA was similarly relieved, its outlook for the economy/inflation did not change materially. Signs of capacity stress, particularly in the labour market, are still evident and despite the three rate increases in 2006, the overall policy stance does not look restrictive. In this regard, the RBA, along with other central banks, has drawn attention to signs of speculative behavior, notably the rise of leveraged buy-outs and heightened M&A activity, both evidence that interest rates are not an impediment to asset valuations or activity. Thus, while our base case view is that the next movement in Australian rates will be down (the cash rate is currently 6.25%), this is unlikely to occur before late 2007. Notably, cash is now the highest yielding asset class available to local investors.
- Post the late February correction, we still believe the ASX200 Industrials is expensive both in absolute terms and relative to the level of interest rates. Valuation multiples are at levels which have, in the past, proved unsustainable. While the frenzy of merger and acquisition activity accounts for a portion of the valuation premium, at some point this theme will dissipate. If, in the interim, long term interest rates have edged higher (a global risk for 2H07) and profit estimates for FY08 and FY09 have eased, the market will be very vulnerable. On the plus side, the recently completed profit reporting season for the December half has helped keep this latter risk contained, at least for the next six months. Over the past month, GSJBW Research analysts revised up their profit forecasts for the ASX200 Industrials in FY07 by ~1%. Estimates for FY08 and FY09 are basically unchanged (refer Table below).
- The resources sector did better in February, helped by a rebound in commodity prices (notably copper and oil) and the strong profit result from **BHP Billiton** which included a US\$10bn increase to the existing US\$3bn capital management program – a powerful statement from the company with respect to its view on the sustainability of free cash flow generation. While welcome, we suspect that the February strength does not mark the beginning of a sustained rally for the resources. For at least the next 3-6 months, sentiment will still be tested by mixed economic news from the US and China. We remain comfortable with the medium term prospects for the sector and would look to build positions in the major stocks when they are trading at a discount to our valuations.
- We doubt whether the late February market correction will mark the beginning of a sustained pull-back. The basic fundamentals – resilient profit estimates, little immediate risk from interest rates, ongoing M&A activity etc. – are yet to be compromised so markets should soon find a new equilibrium. What the correction does show, however, is just how much “hot money” is floating around global financial markets and its sensitivity to any reassessment in the pricing of risk. It has left us even more convinced that history will again be correct and that buying industrial equities at current valuations will not be rewarding on a 1-2 year view. The market will need to come back another 5%-10% for genuine value to open up. Stocks we would favour into such a correction: **BHP Billiton, Rio Tinto, Toll Holdings, Brambles, Macquarie Communications, United Group, Ramsay Healthcare, Alesco Corp.**

GSJBW Market Forecasts:

As at 28/02/2007	Price Earnings Ratio (PER)			Earnings Per Share Growth (%)			Dividend Yield (%)		
	FY06	FY07E	FY08E	FY06	FY07E	FY08E	FY06	FY07E	FY08E
S&P/ASX 300	16.4x	14.8x	13.6x	22.9	12.1	9.0	3.6	3.8	4.1
S&P/ASX 300 Industrials	19.0x	17.3x	15.8x	9.0	10.2	9.3	4.1	4.2	4.5
S&P/ASX 300 Resources	12.4x	10.8x	10.0x	52.0	15.1	8.6	2.2	2.5	2.9

Source: GSJBW Research estimates

Portfolio Management: The proposed Suncorp-Metway/Promina merger**Insurance****Analyst: Ryan Fisher**
 Promina Group (PMN): Short Term Not Rated; Long Term Not Rated

Share Price as at 28/02/07: \$7.27; Valuation: \$6.30

 Suncorp-Metway (SUN): Short Term Not Rated; Long Term Not Rated

Share Price as at 28/02/07: \$21.77; Valuation: \$20.00

Year End June	2006 Actual		2007 Estimate		2008 Estimate	
	PMN	SUN	PMN	SUN	PMN	SUN
Net Profit (\$m)	519.6	916.0	482.6	995.0	498.3	954.3
EPS Growth (%)	7.0	3.9	-6.6	6.4	3.2	5.4
PER (x)	14.5	13.1	15.5	12.3	15.0	13.0
Yield (%)	3.4	4.5	3.6	5.0	3.9	5.3

Source: Company data, GSJBW Research estimates

PMN's full year result was well above market expectations, driven by a strong general insurance margin. Nonetheless, it is worth noting that the current SUN share price of \$21.77 implies an offer price of \$7.49 per PMN share, which still represents a 19% premium to our stand-alone valuation. We remind investors that the shareholder vote is due to take place on 5 March 2007.

SUN's first half result highlighted a good performance from all the major divisions. Margin in the General Insurance division was solid, driven by relatively low insurance claims (particularly in the Commercial business) while low bad debt provisions contributed to the strong performance of the Banking division. In aggregate, the profit result exceeded market expectations.

Our valuation of the SUN/PMN merged entity is \$20.60 and we continue to include SUN's target synergies at 85% of face value. Following SUN's good earnings result, the main issue now is for the company to ensure it retains the key management of PMN's general insurance business.

Portfolio Management: Sell Idea**Santos (STO)****Analyst: Anthony Bishop**
 Investment View: Short Term Underperform; Long Term Sell

Share Price as at 28/02/07: \$9.36; Valuation: \$8.55

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Net Profit (\$m)	652.6	444.3	297.6
EPS Growth (%)	6.7	-32.2	33.0
PER (x)	8.6	12.6	18.8
Yield (%)	4.3	2.8	1.8

Source: Company data, GSJBW Research estimates

In the longer term, we are concerned about the company's growth options. Indeed, a key issue is the replacement of its key legacy asset, the Cooper Basin, which accounts for ~40% of total production, with reserves declining at a rate of 10-15% per annum. STO's significant long term growth options continue to be delayed (e.g. Hui Aman and Darwin Train 2) or increasingly uncertain (e.g. Jeruk). In addition, we are concerned about cost pressures. Indeed, the sources of production growth such as Cooper Oil and Fairview (among others) are driving up operating costs to the extent that earnings and valuation are suffering.

Following an incident in June at the Banjar Panji well in Indonesia in which Santos (STO) has an 18% interest, mud has been flowing into the surrounding region. The operator of Banjar Panji currently estimates the total costs for drilling relief wells and mud management to be US\$180m although this figure may increase. While STO has insurance coverage for these types of incidents, it is not clear how much it will be able to recover.

The longer term issues, combined with the short term uncertainty associated with the Banjar Panji liability, has resulted in us downgrading our recommendation on the stock to underperform/sell after its recent 2006 full year result. Therefore, **we recommend investors reduce portfolio exposure to STO.**

Portfolio Management: High Yield Opportunities**Macquarie Communications (MCG)****Analyst: Alison Booth****Investment View: Short Term Marketperform; Long Term Buy**

Share Price as at 28/02/07: \$5.94; Valuation: \$6.68

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Net Profit (\$m)	103.0	48.5	83.0
Price/Cash Flow (x)	16.4	30.8	21.0
Yield (%)	6.6	7.1	7.6
Franking (%)	0.0	0.0	0.0

Source: Company data, GSJBW Research estimates

MCG owns a portfolio of communications infrastructure assets, including Broadcast Australia (BA), owner and operator of around 600 broadcast transmission towers across Australia, as well as a majority stake in Arqiva, a provider of broadcast transmission services to commercial television and radio broadcasters in the UK.

Our view is that the switchover to digital technology represents a significant opportunity for MCG. This is primarily due to the potential for the provision of additional broadcast transmission services by Broadcast Australia and Arqiva (eg Mobile TV) that will result from this evolution in communications technology (digital TV is to become a key source of revenue for MCG). MCG continues to consider a number of investment opportunities (focusing on Europe and North America) whilst maintaining focus and price discipline. However, there is some uncertainty at present over potential acquisitions and more importantly any associated capital raising which may weigh on the stock in the short term.

Our positive long term view on MCG is driven by the stock's defensive earnings characteristics (underpinned by its long term contracts), solid operating and investment track record and attractive growth options within its existing businesses (such as mobile TV, datacasting and digital radio). MCG's attractive valuation metrics and solid distribution growth (largely funded from the operating cash flows of the assets) are also key drivers of our positive view on the stock.

Australian Infrastructure Fund (AIX)**Analyst: Alison Booth****Investment View: Short Term Marketperform; Long Term Hold**

Share Price as at 28/02/07: \$2.61; Valuation: \$2.49

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Net Profit (\$m)	109.5	118.2	97.3
Price/Cash Flow (x)	8.7	8.2	10.1
Yield (%)	5.4	5.9	6.3
Franking (%)	45.0	45.0	45.0

Source: Company data, GSJBW Research estimates

AIX is a diversified infrastructure fund, largely comprised of airport assets with some smaller investments in seaports, toll roads and rail. The operating environment for airline traffic will likely remain challenging over the next 6-12 months, primarily due to a lack of international airline capacity. However, we believe AIX's portfolio is well positioned to sustain reasonable traffic growth, given factors specific to certain airports such as Perth (resources/property boom), Gold Coast (runway extension in FY07) and Hamburg (increasing low-cost carrier hub in Europe).

We view the stock as a relatively clean exposure to an operationally sound and well diversified portfolio of infrastructure assets. On our estimates, AIX will achieve 4.5% compound annual growth in distributions from fiscal 2007 to fiscal 2011. We remind investors that we are comfortable using forecast yield to support our investment case for AIX, given that distributions are largely covered by the operating cash flows of its underlying assets.

There is also potential for AIX to increase its current stake in Melbourne and Perth airports or to make further offshore acquisitions through its partnership with Hochtief. The performance of AIX's recent acquisitions (e.g. Athens, Hamburg and Gold Coast airport) has exceeded market expectations, giving us a level of confidence in management's acquisition strategy. However, attractive deals are difficult in the short term given the prevailing competitive bidding environment. Although periodic global events will likely impact airport traffic growth, we believe AIX's airport assets are well positioned to absorb any short term shocks and should continue to provide solid returns. We are comfortable accumulating the stock around our DCF valuation of \$2.49.

Portfolio Management: Emerging Companies**Crane Group (CRG)****Analyst: Stuart Larke****Investment View: Short Term Outperform; Long Term Buy**

Share Price as at 28/02/07: \$16.30; Valuation: \$14.00

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Net Profit (\$m)	47.1	53.1	62.2
EPS Growth (%)	-8.2	9.5	14.8
PER (x)	20.4	18.6	16.3
Yield (%)	3.7	4.0	4.1

Source: Company data, GSJBW Research estimates

CRG distributes electrical and plumbing supplies in Australia and New Zealand and manufactures plastic pipeline systems and non-ferrous metal products including copper alloy rod and bar extrusions, copper tube, and aluminium extrusions. Tradelink is the company's major division by revenue, supplying plumbing and electrical products. The other main business divisions are Iplex (plastic pipelines), Crane Distribution New Zealand (plumbing and electrical supplies) and Metals.

CRG's recent interim result demonstrated management's turnaround initiatives for the Tradelink business are delivering results, despite weak housing markets. Trading since year end has remained strong and we believe company guidance could prove conservative. We believe operational improvements to the Tradelink business and strong demand from the Pipelines business will deliver strong earnings growth while we await a recovery in the Australian/New Zealand housing cycle. The key risk to our view is the impact of 3 interest rate rises last year and the weak New Zealand economy, given around three quarters of CRG's group sales are exposed to the Australian/NZ housing market.

We maintain our long-term BUY recommendation. Our current forecasts for Tradelink margins could prove conservative if the current momentum is sustained and the housing cycle recovers in FY08. A 1% change in Tradelink margins has a 10% impact on net profit after tax. We also expect strong demand over the medium term for PVC pipe from CRG's Iplex Pipeline business given recently announced initiatives by the Federal Government to reduce water waste and CRG's strong market share of the PVC pipe market. In addition, CRG has a solid balance sheet and is well placed to continue the near-term store rollout for Tradelink and capacity expansions in Pipelines.

Alesco Corporation (ALS)**Analyst: Greg Ward****Investment View: Short Term Marketperform; Long Term Buy**

Share Price as at 28/02/07: \$12.45; Valuation: \$11.41

Year End May	2006 Actual	2007 Estimate	2008 Estimate
Net Profit (\$m)	42.1	47.3	64.4
EPS Growth (%)	11.7	11.1	35.9
PER (x)	20.7	18.6	13.7
Yield (%)	4.5	4.8	5.8

Source: Company data, GSJBW Research estimates

ALS is a wholesale distribution company operating in four business units - Building & Renovations, Construction & Mining, Scientific & Testing and Garage Doors & Openers.

In the past, ALS has been successful in buying a number of businesses over its life and improving their returns and margins through investment in people, systems, IT, supply chain, etc. as well as complementary bolt-on acquisitions. This has afforded the company strong earnings growth and free cash flow which have seen its market capitalisation and dividend payouts increase.

We think the new senior management team have successfully implemented their stated strategy to date. Management have been disciplined in executing their acquisition strategy by focusing on companies in niche markets with dominant positioning and strong customer relationships. However, the prevailing inflated asset price environment does make this strategy increasingly difficult.

We view ALS as having cyclicity to 50% of its earnings, and hence see it as a leveraged play on the Australian housing recovery. On a 12 month view, we regard investors as buying a quality business with strong and improving market positions at the bottom of the housing cycle. We retain our long term buy recommendation.

GSJBW Model Portfolios

Income Portfolio – (Inception Date: October 2002)

Westpac Banking Corporation	Australian Infrastructure Fund
Commonwealth Bank of Australia	Coca-Cola Amatil
Macquarie Communications Infrastructure Group	AGL Energy
Rio Tinto	Hills Industries
St. George Bank	Foster's Group
Wesfarmers	West Australian Newspapers
Promina Group	Publishing & Broadcasting
Woolworths	Rural Press
Tabcorp Holdings	David Jones
Alesco Corporation	Crane Group

Our changes to the Income Portfolio during February 2007:

Reduced: AGL Energy, West Australian Newspapers

Increased: Coca-Cola Amatil, Rio Tinto, Wesfarmers, Macquarie Communications Infrastructure Group

Income Portfolio Summary: Fiscal 2007 (*Please note MCG is excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	5.0%
Price to Earnings Ratio	17.4x
Average Yield	4.4%
Franking	89%

Source: GSJBW Research estimates

Defensive Portfolio – (Inception Date: October 2002)

BHP Billiton	Brambles
Westpac Banking Corporation	Rinker Group
Macquarie Communications Infrastructure Group	Foster's Group
Woolworths	Mirrabooka Investments
National Australia Bank	AGL Energy
Rio Tinto	Publishing & Broadcasting
Australian Infrastructure Fund	Sonic Healthcare
St. George Bank	Wesfarmers
Promina Group	Origin Energy
Tabcorp Holdings	Coca-Cola Amatil
Ramsay Health Care	

Our changes to the Defensive Portfolio during February 2007:

Reduced: AGL Energy

Increased: Rio Tinto, National Australia Bank, Macquarie Communications Infrastructure Group

Defensive Portfolio Summary: Fiscal 2007 (*Please note MCG and AIX are excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	8.1%
Price to Earnings Ratio	16.3x
Average Yield	3.6%
Franking	83%

Source: GSJBW Research estimates

*All figures or amounts stated in the table above are an estimate only and provided by way of illustration.
Actual figures or amounts may vary from those figures or amounts*

Balanced Portfolio – (Inception Date: October 2002)

BHP Billiton	Publishing & Broadcasting
Macquarie Communications Infrastructure Group	St. George Bank
Woolworths	Aristocrat Leisure
National Australia Bank	Sonic Healthcare
Westpac Banking Corporation	Computershare
Rio Tinto	Healthscope
Promina Group	AGL Energy
Brambles	Origin Energy
Rinker Group	Billabong International
AXA Asia-Pacific Holdings	Wesfarmers
Alesco Corporation	
News Corporation, Inc.	

Our changes to the Balanced Portfolio during February 2007:

Reduced: AGL Energy

Increased: Rio Tinto, National Australia Bank, Macquarie Communications Infrastructure Group

Balanced Portfolio Summary: Fiscal 2007 (Please note MCG is excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	9.8%
Price to Earnings Ratio	16.7x
Average Yield	3.3%
Franking	77%

Source: GSJBW Research estimates

Growth Portfolio – (Inception Date: October 2002)

BHP Billiton	Computershare
National Australia Bank	Toll Holdings
Rio Tinto	Publishing & Broadcasting
Woolworths	Aristocrat Leisure
Brambles	Sonic Healthcare
Rinker Group	Macquarie Capital Alliance Group
St. George Bank	Symbion Health
News Corporation, Inc.	Origin Energy
Promina Group	Billabong International
Alesco Corporation	Alinta
ConnectEast	Cochlear
Healthscope	

Our changes to the Growth Portfolio during February 2007:

Removed: Australian Foundation Investment Company

Added: Toll Holdings

Reduced: Rinker Group, Computershare

Increased: Rio Tinto, National Australia Bank, Healthscope

Growth Portfolio Summary: Fiscal 2007 (*Please note AAN and CEU are excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	13.6%
Price to Earnings Ratio	17.6x
Average Yield	2.9%
Franking	85%

Source: GSJBW Research estimates

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Core Plus Portfolio – (Inception Date: November 2006)

BHP Billiton	Wesfarmers
Brambles	Australian Worldwide Exploration
Woolworths	Crane Group
AGL Energy	Macquarie Leisure Trust
Aristocrat Leisure	Minara Resources
Promina	Photon Group
Rio Tinto	Pan Australian Resources
St George Bank	Reckon
Sonic Healthcare	Seven Network
Westpac Banking Corporation	Tassal Group
Rinker Group	Transfield Services

Our changes to the Core Plus Portfolio during February 2007:

Removed: JB Hi-Fi, Codan, Austbrokers

Added: Macquarie Leisure Trust, Crane Group, Photon Group

Income Portfolio Summary: Fiscal 2007

Earnings per Share Growth	16.6%
Price to Earnings Ratio	16.0x
Average Yield	3.4%
Franking	82%

Source: GSJBW Research estimates

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GSJBW Recommendation Changes in February

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Australian Agricultural Company	AAC	Marketperform	Underperform	-	HOLD
Adelaide Bank	ADB	Outperform	Marketperform	-	HOLD
Austbrokers Holdings	AUB	Marketperform	Outperform	-	BUY
Austar United Communications	AUN	Outperform	Marketperform	BUY	HOLD
Bendigo Bank	BEN	Marketperform	Underperform	SELL	HOLD
Bradken	BKN	Marketperform	Outperform	-	HOLD
Bank of Queensland	BOQ	Marketperform	Underperform	BUY	HOLD
Bluescope Steel	BSL	Underperform	Marketperform	-	HOLD
Bunnings Warehouse Property	BWP	Underperform	Marketperform	SELL	HOLD
Coca-Cola Amatil	CCL	Marketperform	Underperform	-	HOLD
CFS Retail Property	CFX	Marketperform	Outperform	HOLD	BUY
Centro Properties	CNP	Underperform	Marketperform	-	HOLD
Crane Group	CRG	Outperform	Marketperform	-	BUY
CSL Limited	CSL	Outperform	Marketperform	-	HOLD
Caltex Australia	CTX	Marketperform	Underperform	-	HOLD
Corporate Express Australia	CXP	Marketperform	Outperform	-	HOLD
Futuris Corporation	FCL	Marketperform	Underperform	-	HOLD
Foster's Group	FGL	Marketperform	Outperform	-	BUY
Galileo Shopping America	GSA	-	Underperform	SELL	HOLD
Insurance Australia Group	IAG	Underperform	Marketperform	-	HOLD
Macquarie Airports	MAP	Outperform	Marketperform	BUY	HOLD
MacArthur Coal	MCC	Marketperform	Outperform	BUY	HOLD
Macquarie DDR Trust	MDT	Marketperform	Outperform	-	HOLD
Mirvac Group	MGR	Underperform	Marketperform	-	HOLD
Orica	ORI	Outperform	Marketperform	-	HOLD
Oil Search	OSH	Marketperform	Outperform	HOLD	BUY
Pacific Brands	PBG	Outperform	Marketperform	-	HOLD
Patties Foods	PFL	Marketperform	Outperform	-	BUY
Prime Television	PRT	Outperform	Marketperform	-	BUY
Powertel	PWT	Marketperform	Underperform	-	HOLD
Resmed	RMD	Marketperform	Outperform	-	BUY
Reckson New York Property	RNY	Marketperform	Outperform	-	Hold
Singapore Telecommunications	SGT	-	Marketperform	HOLD	BUY
Sino Gold	SGX	-	Marketperform	HOLD	BUY
Sonic Healthcare	SHL	Marketperform	Outperform	-	HOLD
Select Harvest	SHV	-	Underperform	SELL	HOLD
Salmat	SLM	Marketperform	Underperform	-	HOLD
Santos	STO	Underperform	Marketperform	SELL	HOLD
Timbercorp	TIM	Underperform	Marketperform	SELL	HOLD
Tattersall's	TTS	Marketperform	Underperform	-	SELL
Valad Property Group	VPG	Outperform	Marketperform	-	BUY
Westfield Group	WDC	Marketperform	Outperform	HOLD	BUY
Woodside Petroleum	WPL	Marketperform	Outperform	-	BUY

Source: GSJBW Research

Referred to in Document:

Company Name	Stock Code	Share Price (as at 28 Feb 2007)	Valuation	Short Term Recommendation	Long Term Recommendation
Australian Agricultural Company	AAC	\$2.37	\$1.63	Marketperform	HOLD
Alinta	AAN	\$14.25	\$12.13	Marketperform	HOLD
Adelaide Bank	ADB	\$13.32	\$13.50	Outperform	HOLD
AGL Energy	AGK	\$16.03	\$16.69	Not Rated	NR
Australian Infrastructure Fund	AIX	\$2.61	\$2.49	Marketperform	HOLD
Aristocrat Leisure	ALL	\$16.80	\$15.33	Marketperform	BUY
Alesco Corporation	ALS	\$12.45	\$11.41	Marketperform	BUY
ASX Limited	ASX	\$41.85	\$34.50	Marketperform	HOLD
Austar United Communications	AUN	\$1.34	\$1.26	Outperform	BUY
Austbrokers Holdings	AUB	\$5.15	\$4.92	Marketperform	BUY
Australian Worldwide Exploration	AWE	\$2.71	\$2.28	Outperform	BUY
AXA Asia Pacific Holdings	AXA	\$7.45	\$7.20	Marketperform	BUY
Billabong International	BBG	\$17.15	\$16.57	Outperform	BUY
Bendigo Bank	BEN	\$13.35	\$13.00	Marketperform	SELL
BHP Billiton	BHP	\$27.13	\$25.31	Outperform	BUY
Bradken	BKN	\$8.50	\$7.81	Marketperform	HOLD
Bank of Queensland	BOQ	\$15.04	\$15.15	Marketperform	BUY
Bluescope Steel	BSL	\$9.33	\$8.80	Underperform	HOLD
Bunnings Warehouse Property	BWP	\$2.14	\$2.05	Underperform	SELL
Brambles	BXB	\$13.26	\$12.55	Outperform	BUY
Commonwealth Bank of Aust.	CBA	\$49.96	\$43.70	Underperform	HOLD
Coca-Cola Amatil	CCL	\$8.27	\$7.90	Marketperform	HOLD
ConnectEast Group	CEU	\$1.40	\$1.56	Marketperform	BUY
CFS Retail Property Trust	CFX	\$2.40	\$2.23	Marketperform	HOLD
Centro Properties Group	CNP	\$9.83	\$7.71	Underperform	HOLD
Cochlear	COH	\$56.74	\$58.96	Marketperform	BUY
Computershare	CPU	\$10.03	\$9.35	Outperform	BUY
Crane Group	CRG	\$16.30	\$14.00	Outperform	BUY
CSL Limited	CSL	\$77.65	\$76.27	Outperform	HOLD
Caltex Australia	CTX	\$22.33	\$21.51	Marketperform	HOLD
Corporate Express Australia	CXP	\$6.05	\$6.12	Marketperform	HOLD
David Jones	DJS	\$4.41	\$3.72	Marketperform	HOLD
Futuris Corporation	FCL	\$2.10	\$2.06	Marketperform	HOLD
Foster's Group	FGL	\$6.32	\$6.50	Marketperform	BUY
Galileo Shopping America Trust	GSA	\$1.30	\$1.22	Underperform	SELL
Hills Industries	HIL	\$5.40	\$4.56	Marketperform	HOLD
Healthscope	HSP	\$5.95	\$5.97	Marketperform	BUY
Insurance Australia Group	IAG	\$5.98	\$5.75	Underperform	HOLD
Leighton Holdings	LEI	\$31.10	\$19.98	Marketperform	HOLD
Macquarie Airports	MAP	\$3.70	\$3.82	Outperform	BUY
MacArthur Coal	MCC	\$4.87	\$5.57	Marketperform	BUY
Macquarie Communications Infrastructure	MCG	\$5.94	\$6.68	Marketperform	BUY
Macquarie Capital Alliance	MCQ	\$4.33	\$5.22	Marketperform	BUY
Macquarie DDR Trust	MDT	\$1.27	\$1.34	Marketperform	HOLD
Mirvac Group	MGR	\$5.66	\$5.22	Underperform	HOLD
Mirrabooka	MIR	\$2.08	\$2.40	N/A	BUY
Macquarie Leisure Trust	MLE	\$2.84	\$3.03	Outperform	BUY
Minara Resources	MRE	\$6.47	\$5.73	Outperform	BUY
National Australia Bank	NAB	\$40.36	\$38.29	Marketperform	BUY
Newcrest Mining	NCM	\$22.55	\$13.11	Marketperform	BUY
News Corporation, Inc.	NWS	\$29.87	\$31.29	Outperform	BUY
Origin Energy	ORG	\$8.86	\$7.58	Not Rated	NR
Orica	ORI	\$24.75	\$22.31	Outperform	HOLD
Oil Search	OSH	\$3.54	\$3.90	Marketperform	HOLD
Pacific Brands	PBG	\$2.93	\$3.20	Outperform	HOLD
Publishing & Broadcasting	PBL	\$19.23	\$22.40	Outperform	BUY
Patties Foods	PFL	\$1.84	\$2.12	Marketperform	BUY
Photon Group	PGA	\$5.99	\$6.02	Outperform	HOLD
Promina Group	PMN	\$7.27	\$6.30	Not Rated	NR
Pan Australian Resources	PNA	\$0.35	\$0.47	Outperform	BUY
Prime Television	PRT	\$3.85	\$4.10	Outperform	BUY
Powertel	PWT	\$2.27	\$1.63	Marketperform	HOLD
Ramsay Healthcare	RHC	\$11.60	\$10.83	Marketperform	BUY
Rinker Group	RIN	\$18.68	\$19.37	Marketperform	HOLD
Rio Tinto	RIO	\$75.60	\$77.16	Outperform	BUY

Reckon	RKN	\$1.09	\$1.26	Outperform	BUY
Resmed	RMD	\$6.07	\$7.02	Marketperform	BUY
Reckson New York Property	RNY	\$1.20	\$1.21	Marketperform	HOLD
Rural Press	RUP	\$13.30	\$10.45	Marketperform	HOLD
Seven Network	SEV	\$11.48	\$10.60	Outperform	HOLD
St George Bank	SGB	\$33.05	\$31.83	Marketperform	HOLD
Singapore Telecommunications	SGT	\$2.60	\$2.65	Marketperform	HOLD
Sino Gold	SGX	\$7.21	\$2.40	Marketperform	HOLD
Sonic Healthcare	SHL	\$14.06	\$14.44	Marketperform	HOLD
Select Harvests	SHV	\$10.09	\$12.38	Underperform	SELL
Salmat	SLM	\$4.24	\$4.24	Marketperform	HOLD
Santos	STO	\$9.36	\$8.55	Underperform	SELL
Suncorp-Metway	SUN	\$21.77	\$20.00	Not Rated	NR
Symbion Health	SYB	\$3.79	\$3.66	Marketperform	BUY
Tabcorp Holdings	TAH	\$16.15	\$16.81	Marketperform	HOLD
Tassal Group	TGR	\$2.46	\$2.75	Outperform	BUY
Timbercorp	TIM	\$1.99	\$2.23	Underperform	SELL
Toll Holdings	TOL	\$19.37	\$18.95	Outperform	BUY
Transfield Services	TSE	\$11.00	\$10.43	Marketperform	BUY
Tattersall's	TTS	\$4.60	\$4.15	Marketperform	HOLD
United Group	UGL	\$13.16	\$14.86	Marketperform	BUY
Valad Property Group	VPG	\$2.00	\$1.81	Outperform	BUY
West Australian Newspapers	WAN	\$14.50	\$10.50	Outperform	HOLD
Westpac Banking Corporation	WBC	\$25.46	\$23.58	Outperform	HOLD
Westfield Group	WDC	\$21.75	\$20.30	Marketperform	HOLD
Wesfarmers	WES	\$36.45	\$35.20	Marketperform	HOLD
WorleyParsons Group	WOR	\$27.40	\$24.48	Marketperform	BUY
Woolworths	WOW	\$27.20	\$21.36	Outperform	BUY
Woodside Petroleum	WPL	\$37.26	\$32.50	Marketperform	BUY

All valuations and Prices in A\$ unless otherwise stated

Source: IRESS, GSJBW Research

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RECOMMENDATION DEFINITIONS

Short Term

Underperform (UP)
Marketperform (MP)
Outperform (OP)

Stock is expected to underperform the S&P/ASX 200 on a 0-6 month timeframe
Stock is expected to perform in line with the S&P/ASX 200 on a 0-6 month timeframe
Stock is expected to outperform the S&P/ASX 200 on a 0-6 month timeframe

Long Term

Sell (S)
Hold (H)
Buy (B)

Stock is expected to underperform the S&P/ASX 200 for beyond 6 months
Stock is expected to perform in line with the S&P/ASX 200 for beyond 6 months
Stock is expected to outperform the S&P/ASX 200 for beyond 6 months

Other Definitions

NR

Not rated. The investment rating has been suspended temporarily. Such suspension is in compliance with applicable regulations and/or Goldman Sachs JBWere policies in circumstances when Goldman Sachs JBWere is acting in an advisory capacity in a merger or strategic transaction involving the company and in certain other situations

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The above recommendations are primarily determined with reference to the recommendation criteria outlined below. Analysts can introduce other factors when determining their recommendation, with any material factors stated in the written research where appropriate. Each criterion is clearly defined for the research team to ensure consistent consideration of the relevant criteria in an appropriate manner.

SHORT TERM (0-6 MONTHS)

Relative Earnings Outlook: Forward looking assessment of risk to consensus EPS estimates relative to estimated EPS risk across the market.

Earnings Revision: The percentage change in the current consensus EPS estimate for the stock (year 1) over the consensus EPS estimate for the stock 3 months ago. Stocks are rated according to their relative rank, effectively making it a market relative measure.

News Flow: The consideration of stock specific news flow, market and/or cyclical thematics and other issues such as index changes. Addresses two issues: (1) What is the potential news flow; and (2) What is the share price reflecting?

Relative Performance: Historic rolling 3 month performance versus the broader market. Stocks are rated according to their relative ranking.

Valuation Support: Considers a range of valuation methodologies, including discounted cash flow (DCF) valuation, PER, dividend yield and any other relevant measure.

LONG TERM (> 6 MONTHS)

Industry Structure: Based on Goldman Sachs JBWere industry structure ranking. All industries relevant to the Australian equity market are ranked, based on a combination of Porter's Five Forces of industry structure as well as an industry's growth potential, relevant regulatory risk and probable technological risk. A company's specific ranking is based on the proportion of funds employed in particular industry segments, aggregated to determine an overall company rating, adjusted to reflect a view of the quality of a company's management team.

EVA™ Trend: ¹ EVA™ trend forecast for coming two years. Designed to reflect "turnaround stories" or to highlight companies Goldman Sachs JBWere analysts believe will allocate capital poorly in the estimated timeframe. (An ROE measure is used for insurance stocks in conjunction with an assessment of the strength of an insurer's balance sheet).

Growth Option: A qualitative and quantitative assessment of a company's long term growth options that the analyst believes should be considered and possibly recognised by the market.

Price:Base Case DCF: The premium or discount to base case DCF valuation at which the stock is trading relative to the average premium or discount across the market.

¹ EVA™ is a registered trademark of the U.S. consultancy firm Stern Stewart

For Insurers

Return On Equity: Rating taking into account the expected level and trend of ROE over the next two to three years.

Balance Sheet: Analyst's assessment of the quality and strength of the insurer's balance sheet, including conservatism of provisioning, sufficiency of capital, and quality of capital.

For REITs

EPU Growth: Ranking of Earnings Per Unit growth relative to other listed Real Estate Investment Trusts. Used instead of EVA™ Trend.

Strategy: Used instead of industry structure as many REIT investors are intra rather than inter sector focussed.

Yield: Yield relative to the REIT sector average. Used instead of Valuation Support.

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Relevant Index: If a research report is published by the New Zealand affiliate of Goldman Sachs JBWere, the recommendation of a company or trust is based on their performance relative to the NZSX 50 Index (Gross) and not the S&P/ASX 200 index.

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Short Term	Overall	Corporate relationship* in last 12 months	Long Term	Overall	Corporate relationship* in last 12 months
Underperform	14%	11%	Sell	3%	3%
Marketperform	61%	63%	Hold	61%	60%
Outperform	25%	26%	Buy	35%	36%

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