Research Bulletin

Australian Equities: Portfolio Strategy Review — May 2005

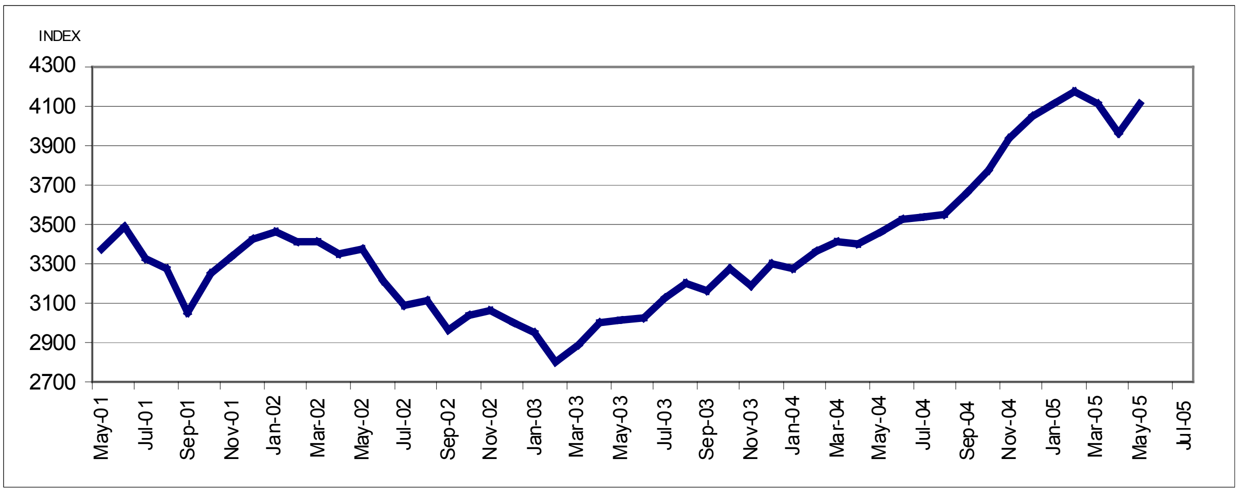
- After struggling through March and April, the ASX200 rebounded during May. At the global level, better economic news out of the US and the lower oil price helped improve sentiment. At the local level, investors welcomed the solid reporting season for the major banks which in turn helped bolster confidence in the FY06 prospects for the large-cap end of the market.
- The strength in the market during May was fairly broadly based. Relative to the market, the best performing sectors were Information Technology, Consumer Discretionary & Energy. REITs, Utilities & Financials lagged the market.
- Given recent profit news in Australia and the likelihood that the US Federal Reserve will continue to lift rates over the next six months, we are inclined to base investment decisions around a defensive view of the markets prospects in FY06. Having said that, it is difficult to see a trigger for a major market-wide hit to FY06 profit expectations. Despite the wave of profit downgrades over the past six weeks, the GSJBW Research expectation for FY06 profit growth has hardly changed.

	Accumulation Index Performance		
	1 Month	**6 Month**	**12 Month**
S&P/ASX 200	3.3%	6.2%	23.8%
S&P/ASX 200 Industrials	4.0%	6.6%	21.8%
S&P/ASX 200 Resources	3.8%	8.6%	39.5%
S&P/ASX Small Ordinaries	3.1%	-0.7%	22.6%
	Relative Index Performance to S&P/ASX 200		
Consumer Discretionary	3.6%	-11.0%	-20.1%
Consumer Staples	0.6%	-2.2%	2.4%
Energy	1.9%	12.2%	28.8%
Financials	-0.7%	2.5%	-2.4%
Health Care	-0.4%	3.7%	5.8%
Industrials	-0.1%	-0.1%	12.1%
Information Technology	6.7%	-2.7%	22.8%
Materials	-0.3%	-2.5%	7.6%
REITs	-3.6%	-4.6%	-9.8%
Telecommunications	-0.1%	-0.7%	-8.3%
Utilities	-3.2%	12.2%	15.4%

Source: GSJBW Research, IRESS

Australian Equity Market Performance: S&P/ASX 200 Index

(May 2001- May 2005)



Source: IRESS

Company Performance: Best and worst performing stocks

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

Best	% Change	Worst	% Change
Mayne Group	32.7%	Multiplex Group	-35.7%
James Hardie	20.0%	Mirvac Group	-20.3%
Computershare	17.1%	PaperlinX	-17.4%
Onesteel	15.6%	Futuris Corporation	-10.6%
Ten Network	15.4%	Newcrest Mining	-10.2%
Australian Stock Exchange	14.9%	Sims Group	-9.9%
News Corporation (Preference)	12.1%	CSL	-8.5%
News Corporation (Ordinary)	10.9%	Investa Property	-6.1%
Fairfax	10.3%	Stockland	-5.5%
Macquarie Bank	10.1%	Coca-Cola Amatil	-5.2%

Source: IRESS

Significant Company News

Banks **Analyst: James Freeman**

- **National Bank (NAB): Short Term Marketperform; Long Term Buy; Valuation: $32.35**
- **Westpac (WBC): Short Term Marketperform; Long Term Hold; Valuation: $20.20**
- **St George Bank (SGB): Short Term Outperform; Long Term Hold; Valuation: $26.80**

NAB's first half result came in slightly above market expectations. Management confirmed that earnings bottomed in the period and it expects the dividend of 83¢ will be maintained in the second half. Further, the bank announced an $803m restructuring program split between the first half and second half. WBC's first result was very strong in terms of bottom line performance, however, the half-on-half result showed very soft loan growth. Management increased the dividend payout ratio to 65% and indicated that would delay any buyback for the short term. No specific profit guidance was provided, however, WBC's management reiterated that it expects to achieve earnings growth at the top end of its peers for the full year. On the other hand, SGB delivered a first half result well ahead of expectations and increased its full year guidance of 10% EPS growth to 11%. To date, SGB earnings have withstood a significant slow down in the housing market. Interstate expansion opportunities provide SGB with a growth alternative outside of core banking which should see it grow earnings at the top end of peers. Hence, SGB remains our preferred exposure over the next six months within the banking sector.

Retail **Analysts: Phillip Kimber, George Batsakis**

- **Just Group (JST): Short Term Underperform; Long Term Hold; Valuation: $2.80**
- **JB Hi-Fi (JBH): Short Term Outperform; Long Term Buy; Valuation: $4.10**
- **Coles Myer (CML): Short Term Marketperform; Long Term Hold; Valuation: $9.60**
- **David Jones (DJS): Short Term Underperform; Long Term Sell; Valuation: $2.10**

JST downgraded its earnings expectations to $67-73m, compared with previous guidance of <$80m. The key driver of the downgrade was weak trading in February to May due to unseasonably warm weather and slower consumer spending (likely to be an issue for other apparel retailers). In contrast, JBH indicated that sales growth slowed but the company still expects to achieve its full year sales target of $700m. JBH's low cost business model and strong store roll out is helping to offset a softer consumer spending environment.

At their third quarter sales result, DJS and CML reconfirmed fiscal 2005 profit guidance. Despite a slowing consumer spending environment, DJS remains confident in its inventory position, ability to buy product cheaper from suppliers with excess stock and cost reduction program to drive growth. CML's management commented that its non-food business will cycle high comparatives in the fourth quarter at a time where consumer spending is tight and warm weather impacted winter apparel sales. This suggests that a slowing consumer spending environment will become more evident in the large listed retailers' fourth quarterly sales results and outlook comments.

Macquarie Bank (MBL) **Analyst: James Freeman**
- **Investment View: Short Term Outperform; Long Term Buy**
- **Share Price as at 31/05/2005: $50.35 Valuation: $52.10**

MBL's full year result came in above market expectations, highlighting strong growth in all business units and a significant increase in international income. Management declared a dividend of 100¢, and announced a special dividend of 40¢ which the market did not anticipate. Earnings guidance was provided for the first time, with management stating that the bank aims to repeat the full year result in fiscal 2006 (excluding the sale of Macquarie Goodman and the impact of International Accounting Standards). Despite the strong run up in the share price prior to the result (~5%), the stock further gained ~6% post the result.

Transport **Analyst: Paul Ryan**
- **Patrick (PRK): Short Term Underperform; Long Term Hold; Valuation: $5.80**
- **Virgin Blue (VBA): Short Term Underperform; Long Term Sell; Valuation: $1.41**

VBA's full year result came in line with market expectations but management made cautious outlook comments for fiscal 2006 reflecting zero fuel hedging, continued growth in airport charges and ongoing yield pressure. On the other hand, PRK's first half result came in below consensus expectations, driven by a slowdown in Pacific National's productivity gains but offset by strong volume in the Ports business. Further, management indicated significant capex spend for the port redevelopment program ($425m over the next two years) and for Pacific National. Regarding VBA, PRK is optimistic on the airline's potential to win corporate market share to enhance yields and lift margins in the medium term.

Retail (Food & Staples) **Analyst: Phillip Kimber**
- **Foodland (FOA): Short Term Marketperform; Long Term Hold; Valuation: $18.75**
- **Woolworths (WOW): Short Term Outperform; Long Term Buy; Valuation: $16.05**
- **Metcash (MTS): Short Term Outperform; Long Term Hold; Valuation: $3.15**

WOW and MTS entered into an agreement with FOA, under which WOW agreed to acquire FOA's New Zealand business, 19 Action supermarkets and 3 development sites for an enterprise value of $2.5b. MTS will acquire the Australian business of FOA for between $780m (cash offer) to $908m (scrip offer). Effectively, MTS's acquisition of FOA combines the #3 and #4 player in the Australian grocery industry and management commented that the acquisition is EPS enhancing. The FOA deal gives WOW a major foothold in the New Zealand retail market and strengthens its position as the #1 player in the Australian grocery market.

James Hardie (JHX) **Analyst: Matthew McNee**
- **Investment View: Short Term Outperform; Long Term Buy**
- **Share Price as at 31/05/2005: $6.72 Valuation: $8.02**

During the month JHX reported a very strong 4Q 2005 earnings result. Net profit after tax was 20% higher than the previous corresponding period and significantly above our forecasts. The stronger than expected result was driven by a very robust performance from the US business. The company also announced KPMG's updated valuation of JHX's asbestos liabilities as at 31 March 2005 with the estimates of the liability having increased to $1.69bn. The updated valuation did not take into account legal cost savings achievable under the NSW Government's proposed amendment to legislation.

Onesteel Limited (OST) **Analyst: Andrew Gibson**
- **Investment View: Short Term Outperform; Long Term Hold**
- **Share Price as at 31/05/2005: $2.52 Valuation: $3.10**

OST has announced final board approval of Project Magnet that basically involves commercialising the company's magnetite iron ore resource and an upgrade to the Whyalla Steelworks. The project should generate in excess of $1.5bn in additional revenues over the life of the project. The company indicated that the iron ore growth project was expected to cost $325m against previous guidance of in excess of $250m. In regard to timing, the project is due for completion in the second half of the 2006/07 financial year. The key benefits of the project include the allowance for an additional 3m tonnes per annum of external iron ore sales from fiscal 2008 onwards and up to an approximate 5% reduction in the cost of producing crude steel at Whyalla.

Australian Equities: Key Issues for Portfolio Strategy

- Global markets have spent the past year swinging between periods of optimism and pessimism. A handful of weak economic statistics through March and April, along with the high oil price, sent the marginal global investor scurrying for safety. Come May, the economic statistics brighten, the oil price retreats and the optimism quickly returned. While major structural imbalances persist, the global economy still looks well placed from a cyclical perspective - particularly if the Chinese economy maintains its current vigor. Relative to 2004, global economic and profit momentum is cooling, but business conditions remain supportive and companies continue to enjoy excellent financial health – particularly in the US. As has generally been the case, the actions of the US Federal Reserve will ultimately determine the duration of the current global business cycle. Goldman Sachs Research believes that the Federal Funds rate will continue to rise through 2005, ending the year around 4.00% (currently 3.00%). To date, the Fed's ability to contain rising inflation risks (and an increasingly speculative US property market) has been curtailed by the resilience of long term bond prices. The Fed will become a far more potent risk for global markets if its "measured" increases in short term rates are ever accompanied by higher long term rates.
- The domestic economy is struggling. Discretionary consumer spending has been soft since late last year, residential construction activity is contracting and the business sector (less-so service industries) is confronting higher cost pressures and sluggish sales. While this slowdown is not a surprise – given the boom conditions of 2002/04 – it remains an open question as to whether it will develop into a genuine cyclical downturn (i.e. rising unemployment) that persists well into 2006 or, with the help of a still supportive policy stance, prove to be short-lived (see below). Over the next six months, the market and ourselves will grapple for an answer to this question. Even if the more positive scenario prevails, it will imply that little has been gained in terms of resolving the structural imbalances/inflationary risks that now overhang the economy. Thus, interest rate pressures would in all likelihood quickly re-emerge. GSJBW Research forecasts production (GDP) to expand by 2.8% in FY05 and 3.0% in FY06.
- The policy stance in Australia remains on the generous side of neutral. Interest rates are relatively low, the terms of trade are at a 50 year high, government policy is expansionary with further tax cuts to come and asset prices are basically healthy - less-so residential property. Soft house prices, and the associated implications for a household's willingness to consume the equity in their home, still stand as the major risks facing the economy as it moves into FY06. While acknowledging these risks, the combination of an accommodative policy stance and a fully employed economy has unsettled the RBA which now expects inflation to hit 3.0% in 2006. Accordingly, we still expect that interest rates will move higher over the next year (5.50% currently), although much will depend on whether household spending rebounds through 2H05.
- The strong May performance has pushed the ASX300 back into fully valued territory. On the basis of the prevailing outlook for profits, interest rates and liquidity, we continue to believe that the risk of a prolonged correction at this point is low. Material price weakness requires material profit disappointment and while earnings downgrades are now coming through – particularly at the small-cap level – we still believe that the risks of major market-wide downgrades remains relatively contained – particularly if the RBA adopts a more cautious approach. From a medium term perspective, however, it is important to keep in mind just how good the past three years have been. On the basis of GSJBW Research estimates, earnings per share growth for the ASX300 has expanded by 57% between FY03 and FY05 – a massive step-up in profitability. While the future is always clouded, we can confidently state that this sort of profit growth is highly unlikely to be replicated between FY06 and FY08. The phase of unexpectedly strong profit growth is now behind us.
- We continue to recommend an equity portfolio based around a core holding of large-cap defensive stocks. Given full valuations, however, buying opportunities in this area are limited. In our view, **Origin Energy, Metcash** and **Promina** represent the best relative value. Interest in the banking sector has been revitalised as the market seeks out relative earnings certainty. On a three month view, this support is likely to continue. It will quickly cool, however, if the Australian economy continues to weaken or market sentiment towards the global outlook swings back to favour the optimists. **Commonwealth Bank** and **St. George Bank** are the stocks we prefer in the sector at the moment. For investors who are looking for a global growth/cyclical bias, the stocks we favor at current prices are **News Corporation, AXA Asia Pacific, Billabong, QBE Insurance** and **Computershare.** We continue to believe the medium term outlook for the resources sector is favourable. Investors with a small exposure to the sector should therefore view any periods of share price weakness as an opportunity to add to positions in **BHP Billiton** and **Rio Tinto.**

GSJBW Market Forecasts:

As at 31/05/05	**Price Earnings Ratio (PER)**			**Earnings Per share Growth (%)**			**Dividend Yield (%)**		
	FY04	**FY05E**	**FY06E**	**FY04**	**FY05E**	**FY06E**	**FY04**	**FY05E**	**FY06E**
S&P/ASX 300	17.8x	14.8x	13.5x	17.8	21.0	9.4	3.4	4.0	4.3
S&P/ASX 300 Industrials	17.4x	15.8x	14.5x	11.4	10.6	9.1	3.7	4.4	4.7
S&P/ASX 300 Resources	18.5x	12.4x	11.3x	44.6	49.6	10.3	2.5	2.8	3.1

Source: GSJBW Research estimates

Portfolio Management: Buy Ideas

The News Corporation Limited (NWS) **Analyst: David Roberts**

- **Investment View: Short Term Outperform; Long Term Buy**
- **Share Price as at 31/05/05: $22.32; Valuation: $26.00**

Year End June	2005 Estimate	2006 Estimate	2007 Estimate
Net Profit ($m)	$2,809m	$3,549m	$4,331m
EPS Growth	9.1%	18.8%	21.7%
PER	25.8x	21.3x	17.5x
Yield	0.3%	0.3%	0.3%

Source: GSJBW Research estimates

- We have recently upgraded our recommendation for NWS and believe that the current trading range offers an opportune entry point particularly for investors with a longer-term investment view. The index transition issues, which have distracted many investors from a focus on the underlying operational strength in the business, have now largely passed. The next ASX down weighting in June will be closely matched by inclusion in the US Russell Index and we expect institutional selling at the time of the final de-weighting to be minimal given that many funds are likely to maintain a residual weighting in the stock.
- Earnings momentum within the business, which has seen NWS perform above expectations within the market over recent years, remains intact. At the 3Q results, the company confirmed full year guidance of earnings growth in the range of 20-22%. In the current market environment where the risk to earnings are increasing, we regard a confirmation as on par with an upgrade. Of particular note, the company’s investment in Sky Italia appears on target to meet expectations with subscriber growth robust and customer churn remaining at very low levels – the market had been concerned that competitive pressures would threaten the profit turnaround potential within Sky Italia.
- When assessing the valuation case for the stock, NWS continues to look attractive on both absolute and relative valuation metrics. On relative terms, NWS is trading roughly in line with US peers, a situation which arguable fails to reflect the stocks above peer average earnings growth profile. Furthermore, we note that NWS continues to trade at a substantial discount to our DCF valuation. We believe that, as the markets’ confidence in the earnings growth potential within the satellite and cable TV assets strengthens, this valuation gap will contract.
- Whilst we acknowledge that the structure of any future deal to buy back stock from Liberty Media presents a risk to the near term outlook for NWS, **we believe the fundamental investment case is compelling and reiterate our Buy recommendation**.

Coca-Cola Amatil (CCL) **Analyst: Paul Ryan**

- **Investment View: Short Term Outperform; Long Term Buy**
- **Share Price as at 31/05/05: $7.85; Valuation: $7.96**

Year End December	2005 Estimate	2006 Estimate	2007 Estimate
Net Profit ($m)	$313.9m	$365.8m	$414.3m
EPS Growth	7.6%	14.8%	12.4%
PER	18.4x	16.0x	14.2x
Yield	3.9%	4.7%	5.5%

Source: GSJBW Research estimates

- Our confidence in the medium-term outlook for Coca-Cola Amatil (CCL) reflects the relatively low risk earnings profile of the company’s core Australian and New Zealand businesses and the attractive valuation support. In its recent trading update the Company confirmed the core Australian and New Zealand businesses, which represent over 80% of group earnings, are performing in line with expectations. However the company indicated that the performance of the South Korean business was disappointing and as a result the group's fiscal 2005 earnings growth would likely be in the “low teens” (which prompted consensus earnings downgrades). We believe the current trading range captures these earnings revisions and view the recent weakness as providing a buy opportunity.
- The Australian business continues to perform in line with our expectations. Recent price rises to recover input cost increases in the grocery channel appear to be holding, and while these are likely to reduce first half volume growth, they will allow the business to maintain margins and deliver approximately 10% earnings growth. On a medium to long term view, we see the core non-alcoholic drinks business as providing relatively low risk earnings with potential for upside surprise from the successful integration of the recently acquired SPC Ardmona business. We see key areas of potential upside surprise from the SPC Ardmona acquisition as being increased product innovation/development and benefits associated with increased distribution.
- CCL is trading below our valuation and offers a yield of 4.7% in fiscal 2006. In a market facing a higher level of earnings risk, we believe CCL offers investors exposure to the attractive mix of a business with defensive earnings, pricing power and a low teen’s EPS growth profile. **We reiterate our short term Outperform and long term Buy recommendations for CCL**.

Portfolio Management: Reduce Ideas

Multiplex (MXG) **Analyst: Nick Vrondas**

- **Investment View: Short Term Underperform; Long Term Sell**
- **Share Price as at 31/05/05: $2.56; Valuation: $4.40 (Under Review)**

Year End June	2005 Estimate	2006 Estimate	2007 Estimate
Net Profit ($m)	Under Review	Under Review	Under Review
EPS Growth	Under Review	Under Review	Under Review
PER	Under Review	Under Review	Under Review
Yield	Under Review	Under Review	Under Review

Source: GSJBW Research estimates

- MXG recently provided profit guidance for fiscal 2005 ($170m versus previous guidance of $235m), which we believe was significantly worse than what the market expected. Further, management fiscal 2006 guidance provided little clarity as to how underlying net profits will be generated or the group's ongoing distribution policy.
- Whilst operating cash flows for fiscal 2006 are expected to be positive, they will be well below the fiscal 2005 dividend. If we assume dividends were paid in line with free cash flows, we would expect a fiscal 2006 dividend of 20 cps (equivalent to a 5-6% yield). MXG's ability to fund its development pipeline was hampered by capital constraint and yet it chooses to pay out substantially more than it earns from external parties. In our view, dividend risk is high as we do not think the current payout is sustainable.
- Whilst we can construct very plausible long-term valuation scenarios that are supportive of the current stock price, we believe that the market may trade the stock on a worst case scenario basis for some time yet. Overall, we believe the benefit of the doubt will not be awarded until issues such as Wembley, the simplification of Duelguide, cost focus, resource consolidation, risk management, distribution policy and the establishment of clear lines between the Trust and Corporation are demonstrated. Hence, **we reiterate our Sell recommendation.**
- Amongst the developers in general, we believe MXG is a relatively isolated case. Nonetheless, **we acknowledge that this negative sentiment may be translated to others, particularly those with leverage to residential construction – for instance, Mirvac Group (MGR).**

Mayne Group (MAY) **Analyst: Jack Mordes**

- **Investment View: Short Term Marketperform; Long Term Hold**
- **Share Price as at 31/05/05: $4.63; Valuation: $4.52**

Year End June	2005 Estimate	2006 Estimate	2007 Estimate
Net Profit ($m)	$71.5m	$90.8m	$122.3m
EPS Growth	7.2%	10.8%	15.2%
PER	17.3x	15.6x	13.5x
Yield	2.4%	2.8%	3.3%
Franking	0%	50%	50%

Source: GSJBW Research estimates

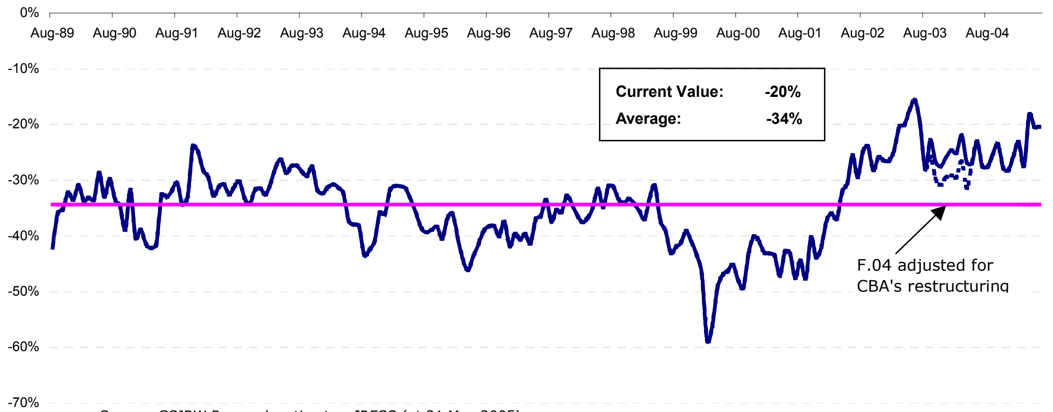
- MAY has recently announced it is reviewing the merits of a demerger, which would involve the separate listing of its global pharmaceutical business and its domestic healthcare business. In our view, that the board is focused on improving the performance of the businesses is a positive, but it is unclear why this cannot occur without a demerger.
- Whilst we acknowledge that there is long-term value in MAY's businesses that may be realised through a demerger, we believe the likelihood of improvement in MAY's operating performance in the near term has decreased. Further, the lack of confirmation or conviction on the company's fiscal 2005 guidance may suggest some short term earnings risk (particularly in the pharmaceutical business) and the costs of reviewing the demerger and/or the potential management distraction during this process may impact underlying business performance. We note that the timing of the demerger and the potential outcome is uncertain at this stage, however, we believe a demerger may increase MAY's corporate appeal.
- Due to the preliminary nature of the demerger proposal and the unchanged prospects for the company's earnings, **we recommend that investors with a below-average risk appetite and who are not prepared to take a firmer view on the likelihood of corporate activity, take some profits at current levels** (the stock has risen by ~33% in May).

Portfolio Management: Banks… Fair Value or Full Value?

Over the past three months, the five major Australian banks have outperformed the ASX200. On our estimates, the banks' average price/earnings ratio (PER) discount relative to the non-bank industrials has decreased significantly (~20% compared to an average PER discount of ~34%). In our view, the positive re-rating versus the market indicates that the banks are fully valued (although we acknowledge that absolute valuations are not overly stretched). Nonetheless, we continue to believe fundamentals of the banking sector remain solid over the next six months, particularly versus the non-bank industrial part of the market where earnings risk is increasing. Below we reiterate our short term and longer term preferences within the bank sector following the first half reporting season.

Major Bank Relative PER.

Relative to Industrial Equity Market (Ex TLS, Ex Banks)



Source: GSJBW Research estimates, IRESS (at 31 May 2005)

The first half profit result has increased our confidence in the bigger picture for St George Bank (SGB), highlighting strong growth with little change to the risk profile. We believe SGB's growth options (interstate expansion and product diversification) will offset slowing system loan growth. Given this growth profile, positive revision trends, lower relative risk and an attractive yield (fiscal 2006 dividend yield of 5.8%, above peer average), **SGB remains our preferred exposure in the banking sector over the next six months**.

In the longer term, we favour the restructuring stories – Commonwealth Bank (CBA) and National Bank (NAB), where successful execution should generate above peer growth over the next 3-5 years. Whilst CBA's returns profile is appealing (see table below), we highlight the improvement in the risk profile. In our view, investors have long associated significant execution risk with the Which New Bank? (WnB) restructuring program. Therefore, we believe delivery of both an improvement in the core business (where signs of a turnaround are showing) and above target synergies from WnB (which management is confident of achieving) will go a long way in further re-rating the stock. Regarding NAB, it is quite clear that momentum has began to shift in its favour. Earnings have bottomed in the first half of fiscal 2005 and we expect earnings to return to acceptable levels in fiscal 2007/2008. However, we highlight that NAB offers the lowest yield within the sector at current prices. Further, we estimate NAB's franking levels will remain at 80% and the dividend payout ratio will not increase over the next three years, which could be unattractive for income-seeking investors, particularly when compared to its peers.

As at 31/05/05	Price Earnings Ratio (PER)			Earnings Per share Growth (%)			Dividend Yield (%)			Franking (%)		
	F05E	F06E	F07E	F05E	F06E	F07E	F05E	F06E	F07E	F05E	F06E	F07E
St George Bank	14.5x	13.2x	12.1x	12.6	9.9	8.3	5.3	5.8	6.3	100	100	100
Commonwealth Bank	13.7x	12.7x	12.0x	31.0	8.0	6.0	5.4	5.8	6.2	100	100	100
National Bank	15.0x	13.3x	11.6x	-7.2	13.1	14.0	5.3	5.4	5.5	80	80	80
Westpac Bank	13.2x	12.2x	11.4x	9.2	9.8	7.2	5.2	5.6	5.9	100	100	100
ANZ Bank	12.6x	11.8x	11.1x	8.6	6.9	6.4	5.1	5.5	5.9	100	100	100

Source: GSJBW Research estimates

Portfolio Management: Reinvesting Takeover Proceeds

The likely completion of a number of significant corporate transactions in the coming weeks will release large sums of liquidity for reinvestment back into the Australian market. For individual investors, this cash will arrive in their hands at a very interesting juncture in the local business cycle. As such, we believe clients should consider a wide range of reinvestment options.

Takeover Offer	Terms	Value of Offer	Status
BHP Billiton for WMC Resources	$7.85 cash per share	$9.2bn	Closes June 3
Fosters Group for Southcorp Limited	$4.26 cash per share	$3.2bn	Closes June 3
Woolworths & Metcash for Foodland Associated	$25.29 to $26.17 per share (cash & scrip component)	$3.3bn-$3.4bn	In Progress

Source: Company data

<u>Reallocation into resource stocks</u>

In our view, **BHP Billiton (BHP)** and **Rio Tinto (RIO)** should be core holdings in any equity portfolio. From a medium term perspective, we remain comfortable reinvesting proceeds from WMC Resources (WMR) into BHP and RIO. Given strong free cash flow generation from both the diversified miners, absolute returns are likely to be further enhanced by large-scale capital management initiatives. Whilst we acknowledge that short term share price performance will likely be vulnerable to news flow on global steel prices and fear of increasing Chinese steel exports, we remain confident in the longer term that both stocks will continue to outperform in line with tightness across many commodity markets.

Investors with a higher tolerance for volatility or desire for capital growth can supplement this core exposure with an allocation to **Woodside Petroleum (WPL)** and **Australian Worldwide Exploration (AWE)**. WPL is a large-cap energy player with identifiable growth characteristics and in our view, upcoming catalysts (other than the oil price) are: the investment decision on Train 5 in the North West Shelf; appraisal drilling in Mauritania and the potential for value creation from assets like Neptune, Stybarrow. In the small cap space, AWE is an energy business we forecast to deliver strong earnings growth as the company transitions from an exploration focus to one with significant production capacity.

As a general rule, overall portfolio exposure to resource stocks should range from around 10% at the conservative end to 20% at the aggressive end.

<u>Reallocation into industrial stocks</u>

For investors that are happy to reduce their overall exposure to the resources sector at this point – a move that may be appropriate if the strong performance of the past two years has taken your overall portfolio exposure to the sector beyond 20% - we recommend reinvestment into the industrial stocks below.

Woolworths (WOW) – A successful acquisition of Foodland's (FOA) New Zealand operations has strong strategic merit and offers growth potential in the medium term. However, we believe WOW will need to deliver a significant level of synergies in order to generate an adequate return on investment. Nonetheless, WOW remains our top pick in the large-cap listed retailer sector. Its strong franchise in the grocery sector, combined with the strong growth potential from its off-premise liquor business over the next few years, underpin a solid group earnings growth profile. Further, continued supply chain driven cost savings and opportunity to significantly improve ALH's pub operations offers further earnings upside potential.

Metcash (MTS) – In the current environment, we believe MTS's defensive earnings characteristic (100% of earnings are derived from groceries) is appealing. Further, a successful acquisition of Foodland's (FOA) Australian operations would likely be a key share price catalyst for MTS. It combines the #3 and #4 player in the Australian grocery industry and raises MTS purchasing volumes (a key driver of supplier rebates) by 50%. In our view, the accretive returns profile from the acquisition (our estimated return of 18% by fiscal 2008 versus pre-tax cost of capital of 15%) confirms the attractiveness of the deal.

Coca-Cola Amatil (CCL) – Please refer to page 5 for investment case.

For investors with a higher risk appetite, we continue to favour the globally leveraged industrials: **Billabong International (BBG)**, **QBE Insurance (QBE)**, **Computershare (CPU)** and **News Corporation (NWS)**. Your GSJBW adviser can help you assess where your portfolio stands in this regard.

Portfolio Management: Infrastructure Sector

A debate is emerging as to the most appropriate way to value the pure infrastructure stocks in the Australian market.

This debate has surfaced from a growing trend among infrastructure companies to take advantage of the current, relatively low interest rate environment and refinancing their underlying assets. That is, using their infrastructure assets as security, the companies raise debt finance, pay this out to shareholders in the form of higher distributions and then rely on the future operating cash flows of the assets to pay the borrowings off in the future. In effect, this refinancing process 'brings forward' the future cash flows from the infrastructure assets.

Clearly, this practice has so far been popular among investors, exemplified by the ~8% rise in Transurban's (TCL) share price in October last year when it raised its distribution guidance on the back of additional debt financing. All else being equal, however, we believe that a short term focus on distribution growth – that is, a yield-based valuation approach – ignores the moderation in growth that we would expect beyond the period of refinancing benefit (fiscal 2006 – 2009). Hence, the yields on these stocks would need to increase (i.e. share prices decline) to compensate for this lower growth.

The other issue that this practice raises is the resulting pressure for infrastructure companies to engage in new developments or acquisitions in order to support long term cash flow generation (to avoid any potential distribution declines). If these companies begin to aggressively chase new projects, this would clearly reduce the attractive defensive qualities that this asset class has provided investors with in recent years.

To this end, we have conducted a comparison of infrastructure stocks against a group of large-cap industrial equities, using a range of valuation techniques. We summarise our conclusions from this exercise below (for the detailed analysis behind these outcomes, refer to *The Daily Cable*, 11 May 2005):

- **Infrastructure stocks look expensive on earnings multiples**: on a comparable EV/EBITDA (less capex)[1] basis, the market is paying 2-4x more for some infrastructure assets than for the assets of quality industrial companies.

- **Discounted Cash Flow (DCF) valuations for infrastructure stocks incorporate higher long-term growth assumptions than typical industrial stocks**: Our DCF valuations for some of the infrastructure assets (e.g. MIG's M6 Toll or Transurban's CityLink) incorporate a much longer timeframe than our standard industrial DCF models – the latter capture 10 years of forecast cash flows, followed by 2.5% growth into perpetuity. As a result, we question whether investors should pay a premium to DCF for the infrastructure stocks, given that our valuations already capture higher longer term cash flow growth potential.

- **High debt levels result in high sensitivity of infrastructure equity values to small changes in operating assumptions**: This sensitivity for the infrastructure stocks is greater than that evident in most large-cap industrial stocks. Hence, while earnings certainty may be higher for the infrastructure stocks, valuation certainty may well be lower.

Our preferences in the infrastructure sector remain **Macquarie Communications Infrastructure Group (MCG)** and **Macquarie Airports (MAP)** due to their solid earnings/distribution growth outlook (which, in both cases, is not driven by refinancing), potential upside risk to our DCF valuations from each company's growth options and more comfortable valuation support at current prices.

1 Enterprise value (EV) = total capital of a company (debt + equity), while EBITDA is a more cash flow-based earnings measure that is less susceptible to 'earnings management' – this ratio effectively eliminates differences between companies in terms of financing, taxes and methods of depreciation and amortisation (i.e. less impact of companies 'managing' their earnings). We subtract capex in this case to make the ratio comparable between the various infrastructure stocks.

Stock Selection Using Quantitative Techniques

In recent editions of "Australian Equities: Portfolio Strategy Review", we have introduced and tracked movements in the main GSJBW multi-factor Quant stock selection model. Here we provide some straightforward methods for investors to implement the model's recommendations as part of a broader Australian equities portfolio strategy.

- **Timeframe**: It is important to recognise the medium term (12 month) nature of the model's investment recommendations. This is because the model captures a mixture of both short and long term factors, from near term share price momentum relative to the market (the 'Positive RSI' factor) to screens with a longer horizon, such as profitability (EVA Spread) and valuation (ROFE/PEG). This timeframe should guide investors' investment decisions in relation to the model's recommendations.

- **Movements in rankings**: As we have observed previously, stock rankings within the model can move from month to month. This has two implications for investors – changes in the underlying factors should: (a) be monitored on an ongoing basis; and (b) be used to guide the investment decision. For example, all else being equal, if a stock's price falls, but our earnings estimates do not change, the 'value' factor in the model would increase, which would be highlighted by the model as being a more attractive investment opportunity, through a rise in that stock's ranking.

- **Cross-check against fundamental research**: The stock selection model provides a 'top-down' approach to investment decision making, by combining the various screens in order to provide diversification across market themes and thus to deliver stable 'through-the-cycle' returns for investors. Hence, it follows from the discussion above that the model recommendations should be utilised in conjunction with our 'bottom-up' fundamental research to aid in portfolio construction.

The current top rankings in GSJBW's large industrial stock screening model are shown on the table below, as well as changes in rankings over the last month.

Rank	Company	EVA Spread: Level	EVA Spread: Trend	Earnings Revision: Actual 3 Month	Earnings Revision: Predicted	Positive RSI	ROFE/ PEG	TOTAL	Previous Rank (29-Apr-05)	Move in Rank
		(out of 15)	*(out of 15)*	*(out of 15)*	*(out of 15)*	*(out of 10)*	*(out of 30)*	*(out of 100)*		
1	RIN	12	14	15	15	5	26	**88**	3	2
2	JHX	13	15	15	8	9	27	**87**	25	23
3	ALL	15	14	4	15	6	29	**82**	4	1
4	RIO	9	14	14	15	3	26	**82**	1	-3
5	WES	8	14	3	15	9	24	**72**	7	2
6	BHP	14	1	5	15	8	29	**72**	2	-4
7	LEI	13	15	7	0	7	28	**70**	9	2
8	ASX	15	0	8	8	8	30	**69**	13	5
9	BBG	11	13	7	8	3	25	**67**	5	-4
10	WOW	14	1	6	15	2	27	**65**	6	-4
11	UTB	13	0	9	8	6	29	**65**	11	0
12	TEN	11	10	11	8	6	20	**65**	28	16

Source: GSJBW Quantitative Research

GSJBW Model Portfolios

Income Portfolio

Commonwealth Bank of Australia	Rural Press
Telstra Corporation	Macquarie Communications Infrastructure Group
Westpac	National Foods
Australian Gas Light Company	CFS Gandel Retail Trust
St George Bank	Rio Tinto
Tabcorp	Foster's Group
Promina	Commonwealth Property Office Fund
Wesfarmers	Ten Network
Coca-Cola Amatil	Alinta
Woolworths	Macquarie DDR Trust
West Australian Newspapers	

Source: GSJBW Research

Our changes to the Income Portfolio during May 2005:
Reduced: Alinta
Increased: Wesfarmers, Tabcorp, Westpac
Removed: Lion Nathan
Added: Coca-Cola Amatil

Income Portfolio Summary: Fiscal 2006 (*Please note, MCG excluded from the calculation of the EPS Growth rate and PER)

Earnings per Share Growth	7.7%
Price to Earnings Ratio	13.7x
Average Yield	5.7%
Franking	81%

Source: GSJBW Research estimates (as at 31/05/05)

Defensive Portfolio

Commonwealth Bank of Australia	Telstra
BHP Billiton	Australian Gas Light Company
St George Bank	CFS Gandel Retail Trust
Westpac	Tabcorp
Woolworths	Foodland Associated
Promina	Mirrabooka
Origin Energy	Macquarie Airports
Transurban Group	Sonic Healthcare
Rinker	Foster's Group
Rio Tinto	Macquarie DDR Trust
Coca-Cola Amatil	Wesfarmers
Macquarie Communications Infrastructure Group	

Source: GSJBW Research

Our changes to the Defensive Portfolio during May 2005:
Reduced: Transurban Group, Australian Gas Light Company
Increased: Macquarie DDR Trust, Macquarie Airports

Defensive Portfolio Summary: Fiscal 2006 (*Please note, MCG & TCL excluded from the calculation of the EPS Growth rate and PER)

Earnings per Share Growth	9.2%
Price to Earnings Ratio	13.3x
Average Yield	4.8%
Franking	76%

Source: GSJBW Research estimates (as at 31/05/05)

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

BHP Billiton	Billabong International
Commonwealth Bank	News Corporation
Woolworths	Sonic Healthcare
St George Bank	Computershare
Westpac	Macquarie DDR Trust
Rio Tinto	Australian Gas Light Company
Origin Energy	Foodland Associated
Promina	Cochlear
Rinker	Just Group
Coca-Cola Amatil	Brambles
Macquarie Infrastructure Group	Wesfarmers
Telstra	

Source: GSJBW Research

Our changes to the Balanced Portfolio during May 2005:
Reduced: Macquarie Infrastructure Group, Australian Gas Light
Increased: Macquarie DDR Trust, Wesfarmers
Removed: Lion Nathan
Added: Computershare

Balanced Portfolio Summary: Fiscal 2006 (Please note, MIG excluded from the calculation of the EPS Growth rate and PER)

Earnings per Share Growth	10.4%
Price to Earnings Ratio	13.5x
Average Yield	4.2%
Franking	88%

Source: GSJBW Research estimates (as at 31/05/05)

Growth Portfolio

BHP Billiton	Healthscope
Commonwealth Bank	Computershare
Woolworths	Sonic Healthcare
St George Bank	Macquarie DDR Trust
Rio Tinto	Alinta
Origin Energy	Foodland Associated
Transurban Group	Cochlear
Rinker	Toll Holdings
Promina	Just Group
Billabong International	Brambles
News Corporation	WMC Resources
Macquarie Infrastructure Group	

Source: GSJBW Research

Our changes to the Growth Portfolio during May 2005:
Reduced: Alinta
Increased: News Corporation, Healthscope

Growth Portfolio Summary: Fiscal 2006 (*Please note, MIG & TCL excluded from the calculation of the EPS Growth rate and PER)

Earnings per Share Growth	11.1%
Price to Earnings Ratio	13.7x
Average Yield	3.9%
Franking	80%

Source: GSJBW Research estimates (as at 31/05/05)

GSJBW Recommendation Changes During May

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
CSL Limited	CSL	Underperform	Marketperform	No Change	Hold
Corporate Express	CXP	Underperform	Marketperform	Hold	Buy
General Property Trust	GPT	Marketperform	Outperform	No Change	Hold
Harvey Norman	HVN	Underperform	Marketperform	No Change	Hold
ING Industrial Trust	IIF	Underperform	Marketperform	Sell	Hold
Just Group	JST	Underperform	Marketperform	No Change	Hold
Kingsgate Resources	KCN	Outperform	Marketperform	No Change	Hold
Lihir Gold	LHG	No Change	Marketperform	Buy	Hold
Macquarie Bank	MBL	Outperform	Marketperform	No Change	Buy
Macquarie Infrastructure	MIG	Marketperform	Outperform	Hold	Buy
Minara Resources	MRE	Marketperform	Outperform	No Change	Hold
Multiplex	MXG	No Change	Underperform	Sell	Hold
Newcrest Mining	NCM	Marketperform	Outperform	No Change	Buy
News Corporation	NWS	Outperform	Marketperform	Buy	Hold
Perseverance Corporation	PSV	No Change	Outperform	Buy	Hold
Ramsay Healthcare	RHC	Marketperform	Not Rated	Hold	Not Rated
Resolute Mining	RSG	No Change	Marketperform	Hold	Buy
Southern Cross Broadcasting	SBC	Marketperform	Underperform	No Change	Hold
Seven Network	SEV	Underperform	Marketperform	No Change	Hold
SFE Corporation	SFE	Outperform	Marketperform	No Change	Buy
Select Harvests	SHV	Outperform	Marketperform	No Change	Buy
Transurban Group	TCL	No Change	Marketperform	Sell	Buy
Telecom New Zealand	TEL	No Change	Marketperform	Sell	Hold
Tower Limited	TWR	Marketperform	Underperform	No Change	Hold
Village Life	VLL	Underperform	Marketperform	Sell	Buy
Wesfarmers	WES	No Change	Marketperform	Buy	Hold

Source: GSJBW Research

GSJBW Initiation of Research Coverage During May

STOCK	ASX CODE	SHORT-TERM Recommendation	LONG-TERM Recommendation
Bendigo Mining	BDG	Underperform	Hold
Ballarat Goldfields	BGF	Marketperform	Hold
Tassal Group	TGR	Marketperform	Buy

Source: GSJBW Research

Referred to in Document:

Stock	ASX code	SHORT-TERM Recommendation	LONG-TERM Recommendation	Share Price (31/05/05)
Australian Gas Light	AGL	Marketperform	Hold	$13.91
Alinta Gas	ALN	Outperform	Buy	$9.87
ANZ Banking	ANZ	Marketperform	Hold	$21.45
Australian Stock Exchange	ASX	Marketperform	Hold	$22.89
Australian Worldwide Exploration	AWE	Outperform	Buy	$1.75
AXA Asia Pacific	AXA	Marketperform	Buy	$4.64
Billabong International	BBG	Outperform	Buy	$12.36
Bendigo Mining	BDG	Underperform	Hold	$0.98
Ballarat Goldfields	BGF	Marketperform	Hold	$0.23
BHP Billiton	BHP	Outperform	Buy	$16.68
Brambles	BIL	Outperform	Buy	$7.95
Commonwealth Bank	CBA	Outperform	Buy	$37.05
Coca-Cola Amatil	CCL	Outperform	Buy	$7.85
Coles Myer	CML	Marketperform	Hold	$9.12
Cochlear	COH	Outperform	Buy	$32.30
Commonwealth Property	CPA	Marketperform	Buy	$1.31
Computershare	CPU	Outperform	Buy	$5.90
CSL	CSL	Underperform	Hold	$28.90
Corporate Express	CXP	Underperform	Hold	$5.40
David Jones	DJS	Underperform	Sell	$1.80
Futuris Corporation	FCL	Marketperform	Hold	$1.69
Foster's Group	FGL	Not Rated	Not Rated	$5.40
Foodland Associated	FOA	Marketperform	Hold	$26.45
Fairfax	FXJ	Outperform	Hold	$4.18
CFS Gandel Retail	GAN	Marketperform	Buy	$1.66
General Property Trust	GPT	Marketperform	Hold	$3.53
Healthscope	HSP	Outperform	Buy	$4.46
Harvey Norman	HVN	Underperform	Hold	$2.45
ING Industrial Fund	IIF	Underperform	Sell	$2.15
Investa Property Group	IPG	Marketperform	Buy	$1.94
JB Hi-Fi	JBH	Outperform	Buy	$3.42
James Hardie	JHX	Outperform	Buy	$6.72
Just Group	JST	Underperform	Hold	$1.86
Kingsgate Resources	KCN	Marketperform	Hold	$2.72
Lihir Gold	LHG	Marketperform	Buy	$1.07
Macquarie Airports	MAP	Outperform	Buy	$3.66
Mayne Group	MAY	Marketperform	Hold	$4.63
Macquarie Bank	MBL	Outperform	Buy	$50.35
Macquarie Communications	MCG	Outperform	Buy	$6.30
Macquarie DDR Trust	MDT	Marketperform	Buy	$1.21
Mirvac Group	MGR	Underperform	Hold	$3.34
Macquarie Infrastructure	MIG	Marketperform	Hold	$3.89
Mirrabooka Investments	MIR	N/a	Buy	$1.45
Minara Resources	MRE	Marketperform	Hold	$1.88
Metcash	MTS	Outperform	Hold	$3.75
Multiplex Group	MXG	Underperform	Sell	$2.56
National Australia Bank	NAB	Marketperform	Buy	$31.45
Newcrest Mining	NCM	Marketperform	Buy	$13.30
National Foods	NFD	Marketperform	Hold	$6.37
News Corporation	NWS	Outperform	Buy	$22.32
News Corporation (Preference)	NWSLV	Marketperform	Hold	$21.70
Origin Energy	ORG	Marketperform	Buy	$7.14
Onesteel	OST	Outperform	Hold	$2.52
Promina	PMN	Outperform	Buy	$5.10
PaperlinX	PPX	Underperform	Sell	$2.33
Patrick Corporation	PRK	Underperform	Hold	$5.69
Perseverance Corporation	PSV	Outperform	Buy	$0.27
QBE Insurance	QBE	Outperform	Buy	$14.67
Ramsay Healthcare	RHC	Marketperform	Hold	$8.02
Rinker Group	RIN	Outperform	Buy	$12.32
Rio Tinto Limited	RIO	Outperform	Buy	$42.57
Resolute Mining	RSG	Marketperform	Hold	$0.90
Rural Press	RUP	Marketperform	Hold	$10.19
Southern Cross Broadcasting	SBC	Marketperform	Hold	$12.20
Seven Network	SEV	Underperform	Hold	$7.13
SFE Corporation	SFE	Outperform	Buy	$10.08
St George Bank	SGB	Outperform	Hold	$26.05

Stockland	SGP	Marketperform	Hold	$5.52
Sonic Healthcare	SHL	Marketperform	Buy	$11.60
Select Harvests	SHV	Outperform	Buy	$9.84
Sims Group	SMS	Underperform	Hold	$13.52
Tabcorp	TAH	Underperform	Hold	$15.68
Transurban Group	TCL	Marketperform	Sell	$7.27
Telecom New Zealand	TEL	Marketperform	Hold	$5.60
Ten Network	TEN	Marketperform	Hold	$3.74
Tassal Group	TGR	Marketperform	Buy	$0.91
Telstra	TLS	Marketperform	Hold	$5.02
Toll Holdings	TOL	Marketperform	Buy	$12.50
Tower Limited	TWR	Marketperform	Hold	$1.96
Virgin Blue	VBA	Underperform	Sell	$1.68
Village Life	VLL	Underperform	Sell	$0.49
West Australian Newspapers	WAN	Marketperform	Hold	$7.69
Westpac Banking	WBC	Marketperform	Hold	$19.64
Wesfarmers	WES	Marketperform	Buy	$36.72
WMC Resources	WMR	Outperform	Buy	$7.79
Woolworths	WOW	Outperform	Buy	$16.07
Woodside Petroleum	WPL	Marketperform	Buy	$24.75

Source: IRESS, GSJBW Research

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The following disclosure applies to each of the following: NWS
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I, Michael Hawkins, hereby certify that all of the views expressed in this report accurately reflect my personal views about the Subject Company or companies and its or their securities. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

Recommendation Definitions

Short Term	
Underperform (UP)	Stock is expected to underperform the S&P/ASX 200 on a 0-6 month timeframe
Marketperform (MP)	Stock is expected to perform in line with the S&P/ASX 200 on a 0-6 month timeframe
Outperform (OP)	Stock is expected to outperform the S&P/ASX 200 on a 0-6 month timeframe
Long Term	
Sell (S)	Stock is expected to underperform the S&P/ASX 200 for beyond 6 months
Hold (H)	Stock is expected to perform in line with the S&P/ASX 200 for beyond 6 months
Buy (B)	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

Research Criteria Definitions

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.
For NZ Companies	
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 40 Index (Gross) and not the S&P/ASX 200 index.

Distribution of Recommendations - As at 31st March 2005

Short Term	Overall	Corporate relationship* in last 12 months	Long Term	Overall	Corporate relationship* in last 12 months
Underperform	15%	12%	Sell	6%	4%
Marketperform	60%	60%	Hold	60%	55%
Outperform	25%	27%	Buy	33%	42%

* No direct linkage with overall distribution as the latter relates to the full GSJBW stock coverage (>200 companies). The above table combines the corporate relationships and recommendations of both Goldman Sachs JBWere Pty Ltd and its affiliate in New Zealand, Goldman Sachs JBWere (NZ) Limited.

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