Wealth Management

Investment Strategy Bulletin

Australian Equities: Portfolio Strategy Review 30 April 2006

- The S&P/ASX200 finished April stronger (+2.6%) and returned 37.9% for the year. The solid rally was initially driven by resources and banks, whilst an unexpected increase in interest rates by China led to some profit taking in resources and a switch into defensive sectors, such as telecoms, towards the end of the month.

- On the economic front, retail sales, employment and credit growth came in ahead of consensus expectations although building approvals failed to surprise on the upside. The Australian dollar recovered from last month's weakness against the US dollar and major cross-rates, closing at 75.5¢ (+3.9¢). The 10-year bond yield reached a 12-month high, up 37bps to 5.70%.

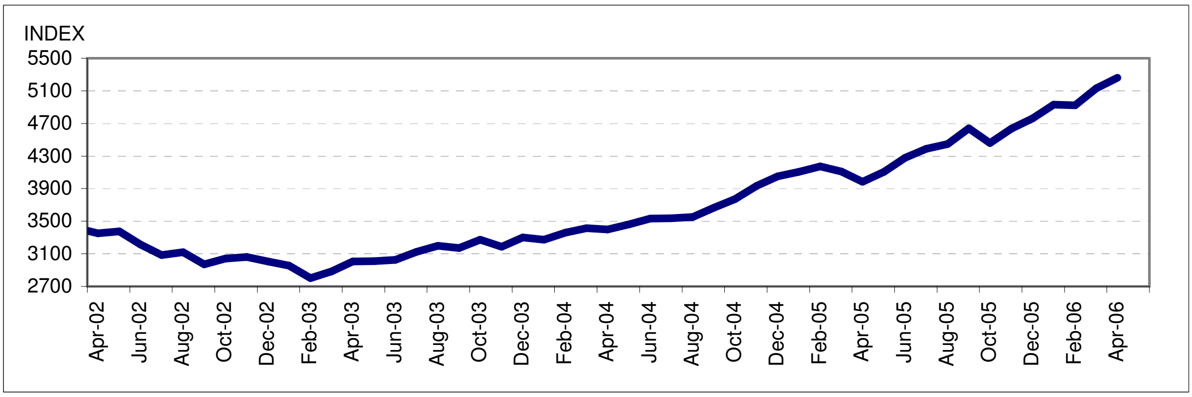
- The Materials, Telecom and Tech sectors outperformed while the REITs, Industrials and Consumer discretionary lagged. From an absolute return perspective, the Small and Mid Cap sectors also performed strongly.

	Accumulation Index Performance		
	1 Month	**6 Month**	**12 Month**
S&P/ASX 200	2.6%	20.4%	37.9%
S&P/ASX 200 Industrials	2.2%	16.1%	29.6%
S&P/ASX 200 Resources	3.7%	38.0%	75.8%
S&P/ASX Small Ordinaries	1.0%	18.9%	41.1%
	Relative Index Performance to S&P/ASX 200		
Consumer Discretionary	-1.8%	-10.8%	-17.4%
Consumer Staples	-0.1%	-12.0%	-16.9%
Energy	-0.2%	10.5%	25.8%
Financials	0.1%	-2.4%	-5.3%
Health Care	-1.4%	0.5%	14.7%
Industrials	-2.7%	-7.1%	-17.3%
Information Technology	3.5%	-3.5%	10.7%
Materials	1.3%	17.3%	37.6%
REITs	-2.8%	-10.0%	-20.2%
Telecommunications	2.1%	-23.2%	-47.6%
Utilities	-0.6%	-2.3%	-6.9%

Source: GSJBW Research, IRESS

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

(April 2002 – April 2006)



Source: IRESS

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Company Performance: Best and Worst Performing Large-Cap Equities

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

Best	% Change	Worst	% Change
Oxiana	27.2%	PaperlinX	-11.1%
Lihir Gold	18.7%	CSR	-9.2%
AWB	14.7%	Macquarie Infrastructure Group	-6.3%
Foster's Group	10.7%	Iluka Resources	-6.3%
Macquarie Bank	10.4%	Macquarie Communications	-6.0%
West Australian Newspapers	9.1%	Leighton Holdings	-5.8%
Oil Search	8.9%	CFS Gandel Retail Trust	-5.1%
Sims Group	8.7%	Pacific Brands	-5.0%
AXA Asia Pacific Holdings	8.6%	Sonic Healthcare	-4.6%
Zinifex	8.5%	Resmed Inc.	-4.1%

Source: IRESS

Significant Company/Economic News

Utilities Sector **Analyst: Anthony Bishop**

- **The Australian Gas Light Company (AGL): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 30/04/06: $19.40; Valuation: $17.65
- **Alinta (ALN): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 30/04/06: $11.40; Valuation: $10.90

The stalemate between the two companies, with respect to the hostile takeover bids by each party for one another, ended when Alinta Limited (ALN) and The Australian Gas Light Company (AGL) signed a binding Heads of Agreement to merge their infrastructure assets to create the "largest energy infrastructure company listed on the Australian Stock Exchange". ALN will buy most of AGL's infrastructure assets for a total of $6.45 billion and the enlarged ALN will be 46% owned by existing AGL shareholders. AGL Energy will retain its existing energy business and initially acquire 33% of ALN's WA retail and cogeneration business for $367 million, with the right to acquire 100% of the business from ALN over a five-year period. Both parties believe the transaction creates "two focused, market leading businesses in their respective sectors". The announcement was positively taken by the market, with both stocks up for the month (AGL +4.7 %, ALN +3.8%).

Energy Sector **Analyst: Anthony Bishop**

- **Oil Search (OSH): Short Term Outperform; Long Term Buy**
  Share Price as at 30/04/06: $4.30; Valuation: $2.90
- **Woodside Petroleum (WPL): Short Term Marketperform; Long Term Hold**
  Share Price as at 30/04/06: $46.80; Valuation: $29.46
- **Santos (STO): Short Term Marketperform; Long Term Hold**
  Share Price as at 30/04/06: $11.82; Valuation: $9.46

The oil price jumped sharply in April, on the back of mounting geopolitical concern around recent developments in Iran, where the government continued its standoff with the US on the issue of its nuclear energy program. With the US administration refusing to rule out military action, there are fears that the situation could lead to a disruption in oil production. Ongoing tension in Iraq, Nigeria and Venezuela also suggest that such concerns are more likely to increase rather than diffuse over the coming months.

Banking Sector **Analyst: James Freeman**

- **ANZ Banking Group (ANZ): Short Term Marketperform; Long Term Hold**
  Share Price as at 30/04/06: $27.95; Valuation: $23.77

ANZ Banking Group reported their first half result for the 2006 financial year in late April with net profit slightly ahead of our estimates, due to provision reductions. First-half earnings rose 10 percent on stronger lending, which sent ANZ shares to a record high following the announcement. On an underlying earnings basis (excluding provision reductions) the result was in line with our estimates.

Transport Sector **Analyst: Paul Ryan**

- **Patrick Corporation (PRK): Short Term Marketperform; Long Term Hold**
  Share Price as at 30/04/06: $8.52; Valuation: $8.76
- **Toll Holdings (TOL): Short Term Outperform; Long Term Buy**
  Share Price as at 30/04/06: $13.98; Valuation: $14.40

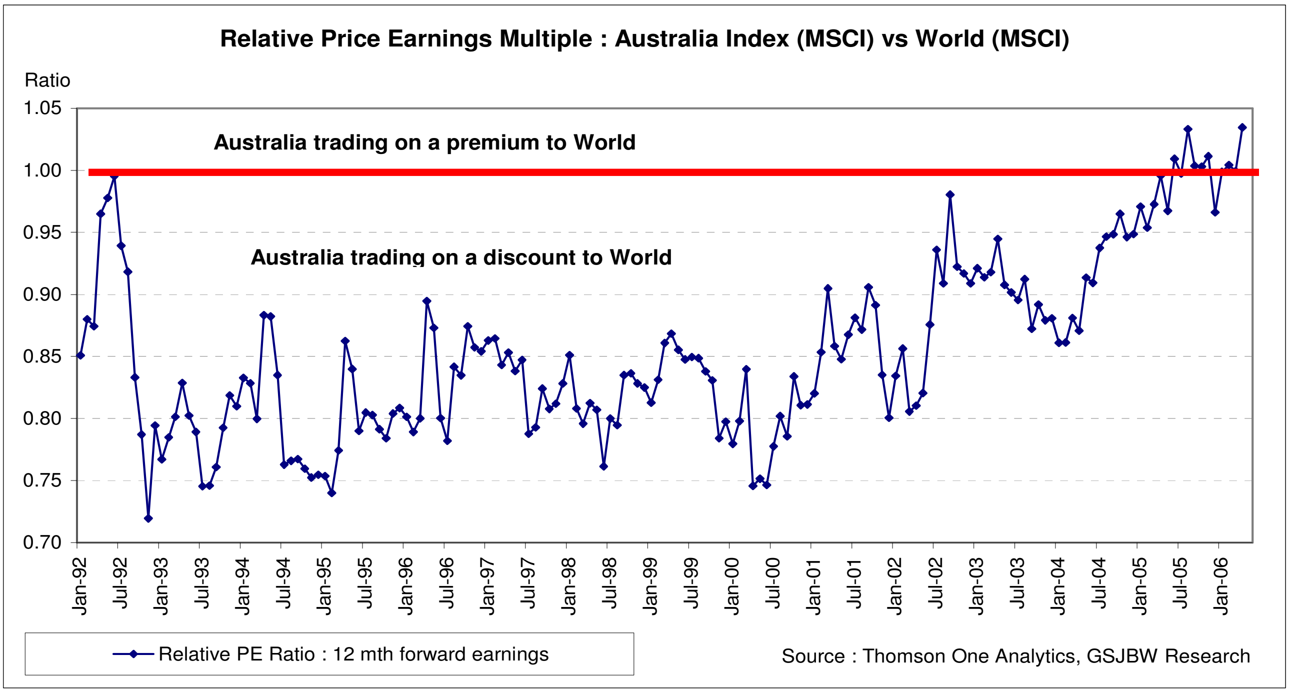
Patrick Corporation (PRK) and Toll Holdings (TOL) reached a mutual agreement regarding the ongoing takeover, following TOL's increased offer for PRK to 0.4 TOL shares plus $3.00 cash for each PRK share. The PRK Board unanimously recommended that PRK's shareholders should accept TOL's revised offer. PRK stated that it will not solicit a higher offer and will not proceed with acquiring FCL Interstate Transport. TOL extended the offer to 12 May 2006 and indicated that it will declare the offer unconditional upon achieving 50.1% of acceptances. With the uncertainty surrounding the takeover finally removed and, given the combined entity will be a leading vertically-integrated logistics business in Australasia, the market reacted favourably to the announcement. TOL and PRK ended the month up +6.7% and +5.71% respectively.

Commodities & Resources **Analyst: Malcolm Southwood**

At the end of the month, The Peoples Bank of China raised its benchmark one-year lending rate by 27 basis points to 5.85% from 5.58 % pa, effective from 28th April. Base metal prices such as copper and aluminium fell as a result of the announcement, reflecting the market's perception that China's move would soften demand for raw materials. The news saw the resources sector index (S&P/ASX 200 Resources) end the day down –4.24% on the previous close, although it still finished the month as the market's best performing sector.

Relative Value: Australian Equity Market vs Global Equities (as at 30/04/2006)

The Australian equity market has performed strongly relative to the world over the last month and is currently trading at a premium to the global market. Moreover, the Industrials are trading at an 8% premium to their global peers (source: Thomson Analytics).



Australian Equities: Key Issues for Portfolio Strategy

- Since early 2005, buoyant global economic conditions have combined with a still generous interest rate environment (i.e. plenty of liquidity) to encourage the marginal global investor (and companies via M&A activity) to take on more risk. Accordingly, growth assets have significantly outperformed defensive assets. More recently, the hunger for risk has spilled over into 'high beta' areas such as commodities and emerging markets. Although rare over the past decade or so, all this looks and feels very much like a typical business cycle. In making such a conclusion, experience suggests that one needs to be wary. The optimal mix of strong growth, ample free liquidity and over-confident investors tends to be one that occurs (or is at least identified) when the 'typical' cycle is well-advanced.
- The demise of the typical cycle is triggered by rising interest rates. Led by the US, global interest rates have been rising, but off an abnormally low starting point and, until more recently, at a relatively measured pace. In the event that the uptrend in global rates continues to roll through over the next six months (particularly US long bond yields), the other side of the typical cycle may well be in sight by year-end – slowing growth/tighter liquidity/a more risk-averse marginal investor. The US economy, in particular, looks poised to pull-back a gear or two from mid-year as a downturn in residential construction emerges and the consumer responds to softer house prices via a more circumspect approach to cashing-in home equity. Goldman Sachs Research believes that the US Federal Funds Rate will peak at 5.00% (currently 4.75%). More generally, we continue to believe that policy normalisation has further to run and that the general level of global interest rates is still low relative to the strong nominal economic environment we are now in. The uptrend in global rates will continue through 2006 and, potentially, into the medium term. For the past two years, the US has led this process. Policy leadership in this regard is now in the process of shifting to Japan, China and Europe.
- For some time, we have argued that household spending in Australia would show renewed vigour in 2006 – assisted by supportive financial conditions, stabilising property prices, possible tax cuts and a still strong labour market. Over recent months, this scenario has gained credibility. We are increasingly confident that economic growth will exceed consensus expectations in 2006 and FY07. If this occurs, however, it will imply that little has been gained in terms of resolving the structural imbalances/inflationary risks that overhang the economy. Thus, interest rate pressures would quickly reemerge, a fact that the fixed interest market was forced to acknowledge during April. GSJBW Research expects production (GDP) to expand by 3.2% in FY06 and 3.6% in FY07.
- 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, the Australian Dollar is tracking sideways, further income tax cuts are pending and asset prices are healthy. This assessment is acknowledged by the RBA who are of the view that rates are more likely to rise than fall. We still expect that interest rates will move higher, with the risk that this will occur sooner rather than later. A 25 basis point increase will take the cash rate to 5.75%. It would be unwise to conclude that this will be as far as the RBA will go.
- On a 6-12 month view, the ASX300 Industrials is now expensive. The strong performance so far in 2006 has been driven by P/E expansion rather than earnings upgrades. The justification for the re-rating is not immediately evident, particularly in light of the step-up in global and domestic interest rates. The industrials have now all but absorbed the valuation buffer they enjoyed relative to interest rates. Although we find valuations demanding, material price weakness requires material profit disappointment and while rising interest rates point to potential problems in 2007 and beyond, corporate news flow should remain supportive over the next six months. The potential for favourable tax changes in the Budget along with further acquisition activity should also help underpin investor optimism.
- The resource stocks continue to enjoy positive earnings revision as commodity prices continue to escalate beyond market expectations. This process has now been going for three years, supported of late by further evidence of tangible supply constraints. The global 'policy normalisation' phase described above, however, is probably now at a point where it will become a drag on economic activity from late this year. As such, investors with a large resources exposure need to appreciate that a typical cycle is brewing and that periods of fervor – such as we saw in March and April – represent an opportunity to take some profit.
- Consistent with our view that the market is fully valued, we are finding it difficult to identify stocks that offer compelling absolute value. Within the large-cap defensive universe Macquarie Communications Infrastructure Group, Australian Infrastructure Fund, West Australian Newspapers, Sonic Healthcare and Origin Energy represent the best value, in our opinion. The major banks have performed strongly over recent months and the sector now looks very fully valued. Globally exposed stocks we recommend accumulating during periods of market weakness include News Corporation, Inc., Brambles Industries, QBE Insurance, Computershare and Rinker Group.

GSJBW Market Forecasts:

As at 30/04/2006	Price Earnings Ratio (PER)			Earnings Per Share Growth (%)			Dividend Yield (%)		
	FY05	FY06E	FY07E	FY05	FY06E	FY07E	FY05	FY06E	FY07E
S&P/ASX 300	18.9	15.6	15.1	28.3	21.2	3.4	3.2	3.7	3.9
S&P/ASX 300 Industrials	18.5	17.0	15.6	12.1	9.4	8.9	4.1	4.4	4.6
S&P/ASX 300 Resources	19.6	13.5	14.3	79.3	45.8	-5.4	1.6	2.4	2.5

Source: GSJBW Research estimates

Portfolio Management: Building Positions

Origin Energy (ORG) **Analyst: Anthony Bishop**

- **Investment View: Short Term Marketperform; Long Term Hold**
- **Share Price as at 30/04/06: $7.05; Valuation: $7.38**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$329.7m	$295.5m	$429.8m
EPS Growth (%)	0.7%	18.2%	7.2%
PER (x)	17.1x	14.5x	13.5x
Yield (%)	2.7%	3.0%	3.7%

Source: GSJBW Research estimates

Recently the share price of Origin Energy (ORG) has languished relative to the market and we believe this underperformance can attributed to three main issues facing the company in the short term. First, we believe there is a risk of further minor downgrades to consensus earnings relative to guidance given by management. Secondly, there is the risk that its merger proposal with Contact Energy is rejected or Origin will have to increase its offer for Contact Energy. Lastly, any further delays to the start up of production at BassGas could impact sentiment. Although these issues have largely been factored into the share price, there is still the potential for further weakness as the market becomes more cognisant of these issues.

Over the next few years the strong earnings growth profile is largely driven by new oil and gas production together with the forecast strength in Origin's New Zealand business, Contact Energy. New oil and gas production includes the imminent start-up BassGas and a few months beyond that the Otway Gas Project. Furthermore we view the proposed merger of Origin and Contact as a clear positive for Origin due to the redistribution of debt to Contact, the significant strategic value of Contact's diversified generating assets and the strategic alignment of their businesses. We note that the merger will also facilitate higher dividends with the payout ratio increasing to 60% for the new entity.

Finally, we expect the final investment decision for Kupe, due 2Q CY06, in which ORG has a 50% interest, should also be viewed positively by the market. We continue to view ORG as a core domestic equity portfolio exposure that should be added to portfolios in periods of weakness.

West Australian Newspapers (WAN) **Analyst: Lou Capparelli**

- **Investment View: Short Term Outperform; Long Term Buy**
- **Share Price as at 30/04/06: $8.30; Valuation: $8.30**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$103.4m	$103.7m	$107.3m
EPS Growth (%)	7.6%	0.4%	3.4%
PER (x)	16.8x	16.7x	16.2x
Yield (%)	5.9%	5.9%	6.1%

Source: GSJBW Research estimates

We have recently upgraded our view on WAN based on our expectation of positive short-to-medium term earnings risk from the company's capex/redundancy program and from an improving box office performance from their Hoyts Cinemas business.

With Western Australia enjoying strong economic growth and outlook, we believe that the underlying story for WAN holds up extremely well. To the extent that recent underperformance is due to concerns over the capex project and the Hoyts Cinemas investment, we believe that value-oriented investors should use current pricing to build an exposure to what is a strong, monopoly business in a high-growth region. Valuation support at current levels is evident, with the stock trading on a forecast fiscal 2007 fully franked yield of 6%.

Although growth in the advertising market is slowing, we believe WAN is better placed relative to many of its peers, given its monopoly assets and exposure to the West Australian economy (which continues to experience solid growth). Further, we believe incremental earnings from the Hoyts acquisition will help underpin the yield on the stock, which is attractive for income-seeking investors. We have therefore changed our recommendation on the stock to a Buy.

Portfolio Management: Reducing Positions

Westpac Bank (WBC) **Analyst: James Freeman**

- **Investment View: Short Term Underperform; Long Term Hold**
- **Share Price as at 30/04/06: $25.10; Valuation: $21.38**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$3079.0m	$3363.0m	$3662.0m
EPS Growth (%)	7.7%	7.6%	6.9%
PER (x)	15.6x	14.5x	13.6x
Yield (%)	4.9%	4.6%	4.9%

Source: GSJBW Research estimates

Whilst we expect the banks to perform strongly over the earnings result period, we believe this offers a good opportunity for investors to reduce exposure to the sector given unappealing valuations and broader concerns about rising interest rates. Within the banking sector, we believe Westpac Bank (WBC) offers the most unattractive risk/reward proposition.

WBC's share price reached a record high in April, as the market's perception of relatively well-contained earnings risk for the banks provided support to the overall sector. However, we believe that WBC's operational and earnings risks are rising. WBC's earnings growth profile will likely be under pressure relative to peers given its exposure to New Zealand and to the Institutional business, combined with continued poor performance in the Retail franchise (slow loan growth coupled with aggressive pricing). Given these headwinds, we believe that WBC appears more likely to deliver earnings growth at the bottom end of peers. Further, we note that WBC currently charges the highest fees out of the major banks, which we believe does not represent a sustainable strategy and will likely continue to affect market share in the retail space. Finally, WBC's valuation multiples are challenging, trading on a forecast fiscal 2007 dividend yield of 4.6% versus peers on 4.8%. As such, we are comfortable for investors to take profits in WBC at current levels.

Newcrest Mining (NCM) **Analyst: Ian Preston**

- **Investment View: Short Term Underperform; Long Term Hold**
- **Share Price as at 30/04/06: $22.80; Valuation: $10.23**

Year End December	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$125.8m	$275.8m	$400.2m
EPS Growth (%)	-10.0%	119.1%	45.0%
PER (x)	60.5x	27.6x	19.0x
Yield (%)	0.2%	0.2%	0.8%

Source: GSJBW Research estimates

We remain cautious on the short term outlook for Newcrest Mining (NCM). The company continues to experience operational issues at Telfer and, although concentrate quality issues are improving, to date they have not been completely resolved. Continued disappointing Telfer production levels have led to several profit downgrades in the past year and we believe the market may have somewhat lost confidence and patience (at least in the short term). Given our estimates for Telfer production are currently at the bottom of the market, we believe the risk to consensus remains on the downside.

In addition, the retirement of the current Managing Director (MD) will likely create another headwind for sentiment towards the stock. Initially anticipated to be around mid-year, the MD will now retire in the first week of May. We suspect the market will likely wait to see who the new MD is before becoming more positive on the stock. In addition, we remind investors that NCM does not derive much benefit from the spot gold price until full year 2007 given the large size of its hedgebook.

NCM is a high risk/return investment proposition. In light of the above factors, we recommend investors reduce their exposure to the stock into any gold price-related strength. Despite our cautious near term view on NCM, we remain positive on the overall outlook for the gold price. Therefore, for those investors wishing to maintain exposure to the sector, we recommend switching from NCM into Lihir Gold (LHG). We note that our long term Hold recommendation on NCM reflects our view that it is the first Australian 'world class' gold company.

Portfolio Management: Offshore Comparisons

There are good reasons why the Australian market as a whole has closed its traditional valuation discount to the global market (on a 12-month prospective price/earnings basis – refer chart on p. 3). These include: long term productivity improvements (and thus higher corporate returns on equity); a reduction of the interest rate differential between Australia and the rest of the world; and the sheer weight of funds being invested in the market, particularly through reinvestment of superannuation money into domestic equities – a situation which has been very beneficial for the financial services sector, which now accounts for over 40% of the Australian equity market (the market is feeding upon itself?).

But do individual Australian companies deserve to trade on par with – or in some cases, at a premium to – their global peers? This argument could be justified if the Australian company is superior in some regard to comparable companies offshore. But the number of companies on the Australian market that truly are leaders within their class is, in our opinion, rather limited. Within the large cap space, only a handful of names come to mind – BHP Billiton, Rio Tinto, Westfield Holdings, Cochlear, Brambles Industries, QBE Insurance and perhaps Rinker Group. Investors should not be paying global premium prices unless they are justified by a global premium business in terms of size, strategic position, management strength and/or shareholder returns.

To this end, the table below provides a snapshot of large cap Australian equities and compares them on a prospective price/earnings ratio basis to some of their major offshore peers. For the purposes of the exercise, we have acknowledged that different companies have different year-ends and so we have 'normalised' to the year-end of the relevant Australian company in each case, for the purposes of comparison.

Company	P/E (F2007E)	Company	P/E (F2007E)
Woodside Petroleum	**20.3**	**QBE Insurance**	**14.1**
Royal Dutch Shell	8.9	American International Group	10.6
Exxon Mobil Corporation	9.4	Lloyds TSB	10.4
Woolworths	**17.9**	**Telstra Corporation**	**13.8**
Wal-Mart Stores	14.9	BT Group	11.2
Tesco	14.4	NTT DoCoMo	13.0
AXA Asia-Pacific Holdings	**18.9**	**Rinker Group**	**16.7**
AXA SA	11.2	Martin-Marietta	18.2
Prudential	12.0	Vulcan Materials	17.9
Macquarie Bank	**18.2**	**Foster's Group**	**15.8**
UBS	12.1	Constellation Brands	13.1
Credit-Suisse	10.7	Diageo	16.1
ABN AMRO	10.5	**CSL**	**25.3**
National Australia Bank	**14.6**	Baxter International	17.5
Royal Bank of Scotland	8.5	Novartis	16.8
Standard Chartered	13.7	**John Fairfax Holdings**	**15.2**
Wesfarmers	**16.0**	New York Times	14.2
General Electric	16.4	The McClatchy Company	13.1

All forecast P/E's for offshore comparable companies are normalised to the year end of the relevant Australian company in each case.
All prices quoted as at 28-Apr-2006

Source: GSJBW Research estimates - for all stocks highlighted in grey
Source: Goldman Sachs Research estimates - for all other stocks

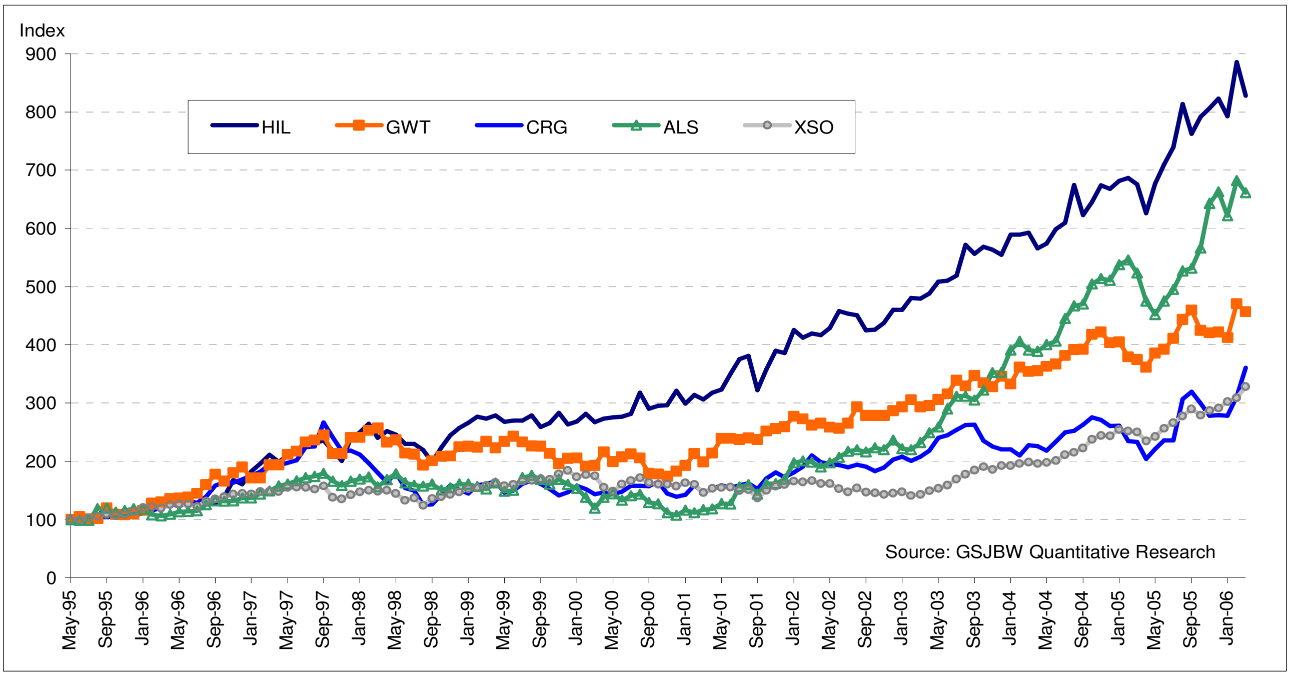
So, for example, while we remain very supportive of Woolworths' long term business strategy and the stock remains a core Australian equity portfolio holding, what justification is there for it to trade at a premium to its much larger, arguably more advanced and highly diversified global peers such as Tesco and Wal-Mart? On the other hand, QBE Insurance may trade at a premium to its much larger peers given its strong track record and management credibility.

Portfolio Management: Emerging Companies

With an equity market at record highs, we believe it is prudent for investors to position their portfolios appropriately in the event of a market slowdown. In our view, an effective strategy is to invest in stocks which generate robust cash flows and pay fully franked dividends to shareholders, thus supporting total returns throughout the cycle. In fact, history suggests that stocks which exhibit those characteristics tend to outperform from a long term total return perspective (i.e. price appreciation and income received).

Within our universe of emerging companies, Hills Industries (HIL), GWA International (GWT), Alesco Corporation (ALS) and more recently Crane Group (CRG) have significantly outperformed the Small Ordinaries Index (XSO) on a 5-year and 10-year view on a total return basis (refer Figure One). This solid performance relates to the value of fully franked dividends combined with the high level of cash flow generated by those companies. Although the type of returns generated by those stocks may not be overly 'exciting' in a momentum-driven market, we nonetheless believe they contribute towards sustainable wealth creation and provide some downside protection to investors' total portfolio returns in weaker markets (given the strong income component).

Figure One: Accumulation Index – HWI, GWT, ALS and CRG



Although we remain comfortable with all four above-mentioned stocks, **we currently prefer ALS and GWT on a longer term view**. ALS's strategy of managing its business by targeting bolt-on acquisitions is proving successful, with the company continuing to diversify its asset base and maintaining a strong track record of achieving its 20% return on funds employed (ROFE) target in acquired businesses. GWT is undergoing a strategic transformation over the next two years and thus, targeting significant cost savings through increased offshore product sourcing and manufacturing efficiencies. In our view, GWT will transition from a manufacturer to a brand distributor over time. Further, both **ALS and GWT have relatively ungeared balance sheet and solid cash flow generation to support their fully franked dividend yield**. Finally, valuation is supportive at current levels with ALS and GWT trading on ~14x our estimated fiscal 2007 earnings relative to the small-cap industrials market (ex financials) on ~15.6x.

Year End June	2006 Estimate		2007 Estimate		2008 Estimate	
	ALS	GWT	ALS	GWT	ALS	GWT
Net Profit ($m)	$43.6m	$58.1m	$49.5m	$63.8m	$52.5m	$66.9m
EPS Growth (%)	16.0%	9.1%	14.1%	9.6%	6.0%	4.8%
PER (x)	15.9x	15.6x	14.0x	14.2x	13.2x	13.6x
Price/free cash flow (x)	15.5x	14.2x	27.6x	15.3x	13.4x	13.8x
Yield (%)	5.5%	6.3%	6.5%	6.4%	6.8%	6.7%
Franking (%)	100%	100%	100%	100%	100%	100%

Source: GSJBW Research estimates

Stock Selection Using Quantitative Techniques

As we have commented a number of times in this section of *Australian Equities: Portfolio Strategy Review*, we continue to favour quantitative screens based upon consensus earnings numbers – that is, the average of forward earnings per share (EPS) estimates published by research analysts in the Australian market. This is a useful source of information regarding the market's thinking in regard to particular stocks, mostly because these are the only widely available statistics concerning the market's valuation of equities. In particular, changes in consensus estimates can indicate the direction of market sentiment and the dispersion of estimates can suggest the degree of uncertainty regarding a company's future results.

On this, the empirical evidence of the last 9 years provides strong support for the use of quantitative screens based on this data. For example, a screen that selected stocks on the basis of consensus price/earnings ratios, adjusted for recent positive earnings revisions (i.e. select those stocks with the lowest P/E's combined with the most positive earnings revisions over the past three months) would have returned investors 23.7% per annum over this period (as at 28 April 2006). For more information, investors are referred to GSJBW Research Report, "*Encyclopaedia of Stock Screening*", October 2005).

At the start of 1998, we included a new factor, "**predicted earnings revision**" into our broader multi-factor Quant model (which aims to provide diversification across market themes and thus to provide stable, 'through-the-cycle' returns, refer Table below). This factor was included in order to provide a forward looking assessment of earnings revision trends, in order to complement the highly successful observed earnings revision factor (which we noted above).

The underlying concept of the predicted earnings revision factor is straightforward: is the trend in consensus earnings likely to be positive, negative or neutral over the coming month? We turned to our analysts for this signal and asked them to provide a directional rating for each of their stocks (+ve, neutral or –ve).

Testing of this factor on a stand-alone basis has indicated an impressive track record, with the positive expected earnings revision stocks generating an annual return of 30.3% over the last 9 years, compared to negative bias stocks at 3.5% per annum.

Rank	Company	EVA Spread: Level	EVA Spread: Trend	Earnings Revision: Actual 3 Month	Earnings Revision: Predicted	Positive RSI	ROFE/ PEG	TOTAL	Previous Rank (31-Mar-06)	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	13	14	14	15	4	28	**87**	1	0
2	ASX	15	14	11	8	4	30	**82**	3	1
3	PPT	14	15	3	8	9	28	**78**	5	2
4	BBG	12	12	12	15	0	25	**76**	4	0
5	CSL	8	13	15	15	7	16	**74**	6	1
6	UTB	14	14	12	8	2	25	**73**	7	1
7	JHX	13	14	5	8	5	29	**73**	2	-5
8	COH	10	9	10	15	6	23	**72**	10	2
9	CML	11	10	11	8	5	26	**72**	9	0
10	CPU	9	12	4	15	5	26	**71**	11	1
11	WOW	12	0	9	15	8	27	**71**	8	-3
12	RMD	11	11	14	8	3	22	**69**	12	0

Source: GSJBW research estimates

We have provided these results in *Australian Equities: Portfolio Strategy Review* since February 2005 (refer *Australian Equities: Portfolio Strategy Review*, 4 January 2006 for methodology). Continued solid equity performance in April, plus the receipt of interim dividends drove portfolio value higher which, since 28 February 2005, has recorded an absolute return of 27.35% (after transaction costs and including dividends which are assumed to be invested in a 5% per annum cash management account). There were no removals or additions to the portfolio as at the end of April.

GSJBW Model Portfolios

Income Portfolio

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

Source: GSJBW Research

Our changes to the Income Portfolio during April 2006:
Removed: Ten Network
Reduced: Tabcorp Holdings, Westpac Banking Corporation
Added: Australian Infrastructure Fund
Increased: West Australian Newspapers

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

Earnings per Share Growth	6.0%
Price to Earnings Ratio	15.0x
Average Yield	5.3%
Franking	86%

Source: GSJBW Research estimates

Defensive Portfolio

BHP Billiton	Publishing & Broadcasting
Commonwealth Bank of Australia	Foster's Group
Woolworths	Brambles Industries
Macquarie Communications Infrastructure Group	Rio Tinto
Promina Group	Sonic Healthcare
St. George Bank	Mirrabooka Investments
Australian Foundation Investment Company	Coca-Cola Amatil
Tabcorp Holdings	Australian Gas Light Company
Ramsay Health Care	Rinker Group
Origin Energy	Wesfarmers
National Australia Bank	

Source: GSJBW Research

Our changes to the Defensive Portfolio during April 2006:
Reduced: Publishing & Broadcasting, Tabcorp Holdings, Rinker Group
Increased: Sonic Healthcare, St. George Bank, Macquarie Communications Infrastructure Group, Woolworths

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

Earnings per Share Growth	6.6%
Price to Earnings Ratio	15.5x
Average Yield	4.1%
Franking	87%

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

BHP Billiton	Rio Tinto
Commonwealth Bank of Australia	Coca-Cola Amatil
Woolworths	News Corporation, Inc.
Macquarie Communications Infrastructure Group	Computershare
Origin Energy	Australian Gas Light Company
Promina Group	Alesco Corporation
National Australia Bank	Australian Foundation Investment Company
St. George Bank	Rinker Group
Publishing & Broadcasting	Billabong International
Brambles Industries	Wesfarmers
Sonic Healthcare	Healthscope
AXA Asia-Pacific Holdings	

Source: GSJBW Research

Our changes to the Balanced Portfolio during April 2006:
Reduced: Rinker Group, Computershare, Publishing & Broadcasting
Increased: St. George Bank, Sonic Healthcare, Woolworths

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

Earnings per Share Growth	7.3%
Price to Earnings Ratio	15.8x
Average Yield	3.9%
Franking	82%

Source: GSJBW Research estimates

Growth Portfolio

BHP Billiton	Alesco
Woolworths	Publishing & Broadcasting
Australian Foundation Investment Company	Aristocrat Leisure
Origin Energy	Symbion Health
St. George Bank	Billabong International
National Australia Bank	Macquarie Airports
Sonic Healthcare	Rinker Group
News Corporation, Inc.	Alinta
Brambles Industries	Salmat
Rio Tinto	Cochlear
Promina Group	Healthscope
Computershare	

Source: GSJBW Research

Our changes to the Growth Portfolio during April 2006:
Reduced: Rinker Group, Computershare, Publishing & Broadcasting
Increased: St. George Bank, Woolworths, News Corporation, Inc.

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

Earnings per Share Growth	7.9%
Price to Earnings Ratio	16.5x
Average Yield	3.7%
Franking	87%

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

GSJBW Recommendation Changes in April

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	**OLD**	**NEW**	**OLD**
Bendigo Bank	BEN	Underperform	Marketperform	-	Hold
Bendigo Mining	BGF	Underperform	Outperform	-	Hold
Bank of Queensland	BOQ	Underperform	Marketperform	-	Hold
Jubilee Mines	JBM	Outperform	Marketperform	-	Hold
Kingsgate Consolidated	KCN	Marketperform	Outperform	-	Buy
Kimberley Diamond Company	KIM	Underperform	Marketperform	Hold	Buy
Macquarie Capital Alliance Group	MCQ	Marketperform	-	Buy	-
Minara Resources	MRE	Outperform	Marketperform	-	Buy
Onesteel	OST	Marketperform	Outperform	-	Hold
Pacifica Group	PBB	Marketperform	Underperform	-	Hold
Pan Australian Resources	PNA	Outperform	Marketperform	-	Buy
Patrick Corporation	PRK	-	Marketperform	Hold	Buy
Perseverance Corporation	PSV	Marketperform	Underperform	-	Hold
Sims Group	SGM	Underperform	Outperform	-	Hold
Smorgon Steel Group	SSX	Outperform	Marketperform	-	Hold
Toll Holdings	TOL	Outperform	Underperform	Buy	Hold
Virgin Blue Holdings	VBA	Marketperform	Outperform	Hold	Buy
West Australian Newspapers	WAN	Outperform	Marketperform	Buy	Hold

Source: GSJBW Research

Referred to in Document:

Company Name	Stock Code	Share Price (as at 30 Apr 2006)	Valuation	Short Term Recommendation	Long Term Recommendation
Australian Foundation Investment Co	AFI	$4.72	$4.84	n/a	BUY
Australian Gas Light Company	AGL	$19.40	$17.65		NR
Australian Infrastructure Fund	AIX	$2.25	$2.43	Marketperform	BUY
Aristocrat Leisure	ALL	$14.73	$15.20	Outperform	BUY
Alinta	ALN	$11.40	$10.90		NR
Alesco	ALS	$9.95	$8.90	Marketperform	BUY
Australand Property	ALZ	$2.07	$1.84	Marketperform	BUY
ANZ Banking Group	ANZ	$27.95	$23.77	Marketperform	HOLD
AXA Asia-Pacific Holdings	AXA	$6.30	$5.95	Marketperform	BUY
Billabong International	BBG	$15.42	$15.25	Outperform	BUY
Bendigo Bank	BEN	$13.85	$11.40	Underperform	HOLD
Ballarat Goldfields	BGF	$0.41	$0.26	Underperform	HOLD
BHP Billiton	BHP	$29.30	$18.56	Outperform	BUY
Brambles Industries	BIL	$11.16	$10.90	Outperform	BUY
Bank of Queensland	BOQ	$15.50	$14.40	Underperform	HOLD
Commonwealth Bank of Australia	CBA	$47.00	$42.60	Marketperform	HOLD
Coca-Cola Amatil	CCL	$7.28	$8.10	Underperform	HOLD
Cochlear	COH	$52.80	$49.58	Outperform	BUY
Computershare	CPU	$7.88	$6.60	Marketperform	HOLD
Crane Group	CRG	$13.33	$11.90	Outperform	BUY
CSL	CSL	$57.70	$38.40	Marketperform	HOLD
Foster's Group	FGL	$5.88	$6.40	Marketperform	BUY
John Fairfax Holdings	FXJ	$3.90	$4.10	Marketperform	HOLD
CFS Gandel Retail Trust	GAN	$1.85	$1.70	Marketperform	BUY
GWA International	GWT	$3.26	$3.30	Marketperform	HOLD
Hills Industries	HIL	$4.68	$4.45	Outperform	HOLD
Healthscope	HSP	$4.37	$4.21	Marketperform	HOLD
Jubilee Mines NL	JBM	$8.04	$5.18	Outperform	HOLD
Kingsgate Consolidated	KCN	$5.84	$4.06	Marketperform	Buy
Kimberley Diamonds NL	KIM	$1.73	$0.95	Underperform	HOLD
Lihir Gold	LHG	$3.17	$1.36	Outperform	BUY
Macquarie Airports	MAP	$3.28	$3.50	Outperform	BUY
Macquarie Bank	MBL	$71.40	$64.90	Underperform	HOLD
Macquarie Capital Alliance	MCQ	$3.40	$4.23	Marketperform	BUY
Macquarie Communications Infrastructure Group	MCG	$5.50	$6.75	Outperform	BUY
Minara Resources	MRE	$2.45	$2.90	Outperform	BUY
Mirabooka Investments	MIR	$1.85	$1.85	N/A	BUY
National Australia Bank	NAB	$37.61	$37.60	Marketperform	BUY
Newcrest Mining	NCM	$22.80	$10.23	Underperform	HOLD
News Corporation Inc.	NWS	$24.16	$26.68	Outperform	BUY
Origin Energy	ORG	$7.05	$7.38	Marketperform	HOLD
Oil Search	OSH	$4.30	$2.90	Outperform	BUY
OneSteel	OST	$3.97	$3.65	Marketperform	HOLD
Pacifica	PBB	$2.72	$3.00	Marketperform	HOLD
Publishing & Broadcasting	PBL	$18.57	$17.75	Outperform	BUY
Promina Group	PMN	$5.67	$5.70	Marketperform	BUY
Pan Australian Resources	PNA	$0.35	$0.40	Outperform	Buy
Patrick Corporation	PRK	$8.52	$6.40	Marketperform	HOLD
Perseverance Corporation	PSV	$0.43	$0.34	Marketperform	HOLD
QBE Insurance Group	QBE	$22.38	$22.20	Outperform	BUY
Ramsey Health Care	RHC	$10.61	$10.05	Marketperform	HOLD
Rinker Group	RIN	$21.20	$20.42	Outperform	BUY
Rio Tinto	RIO	$78.65	$60.81	Outperform	BUY
Rural Press	RUP	$11.00	$10.20	Marketperform	HOLD
St. George Bank	SGB	$30.85	$31.22	Outperform	HOLD
Sims Group	SGM	$19.05	$16.00	Underperform	HOLD
Sonic Healthcare	SHL	$14.98	$14.11	Marketperform	BUY
Salmat	SLM	$4.30	$4.72	Marketperform	BUY
Smorgon Steel Group	SSX	$1.47	$1.59	Outperform	HOLD
Santos	STO	$11.82	$9.46	Marketperform	HOLD
Symbion Health	SYB	$3.42	$3.22	Marketperform	BUY
Tabcorp Holdings	TAH	$15.30	$16.70	Underperform	HOLD
Ten Network	TEN	$3.07	$3.05	Marketperform	HOLD
Telstra Corporation	TLS	$3.94	$4.30	Underperform	HOLD
Toll Holdings	TOL	$13.98	$11.95	Outperform	BUY
Virgin Blue Holdings	VBA	$1.77	$1.95	Marketperform	HOLD
West Australian Newspapers	WAN	$8.30	$8.30	Outperform	BUY
Westpac Banking Corporation	WBC	$25.10	$21.33	Underperform	HOLD
Westfield Group	WDC	$16.93	$16.90	Marketperform	HOLD
Wesfarmers	WES	$36.20	$35.54	Marketperform	HOLD
Woolworths	WOW	$18.66	$19.00	Outperform	BUY
Woodside Petroleum	WPL	$46.80	$30.08	Marketperform	HOLD

Source: IRESS, GSJBW Research

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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

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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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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 50 Index (Gross) and not the S&P/ASX 200 index.

Distribution of Recommendations - As at 31 March 2006

Short Term	Overall	Corporate relationship* in last 12 months	Long Term	Overall	Corporate relationship* in last 12 months
Underperform	18%	17%	Sell	10%	9%
Marketperform	57%	55%	Hold	57%	54%
Outperform	25%	28%	Buy	33%	37%

* 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.

Goldman Sachs JBWere Offices

Melbourne
Telephone (03) 9679 1111
Facsimile (03) 9679 1493

Sydney
Telephone (02) 9321 8777
Facsimile (02) 9321 8621

Brisbane
Telephone (07) 3258 1111
Facsimile (07) 3258 1112

Gold Coast
Telephone (07) 5582 2444
Facsimile (07) 5582 2400

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Telephone (08) 8407 1111
Facsimile (08) 8407 1112

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Facsimile (08) 9422 3399

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Telephone (02) 6218 2000
Facsimile (02) 6218 2001

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