

Private Wealth Management

Investment Strategy Bulletin

Australian Equities: Portfolio Strategy Review

31 May 2006

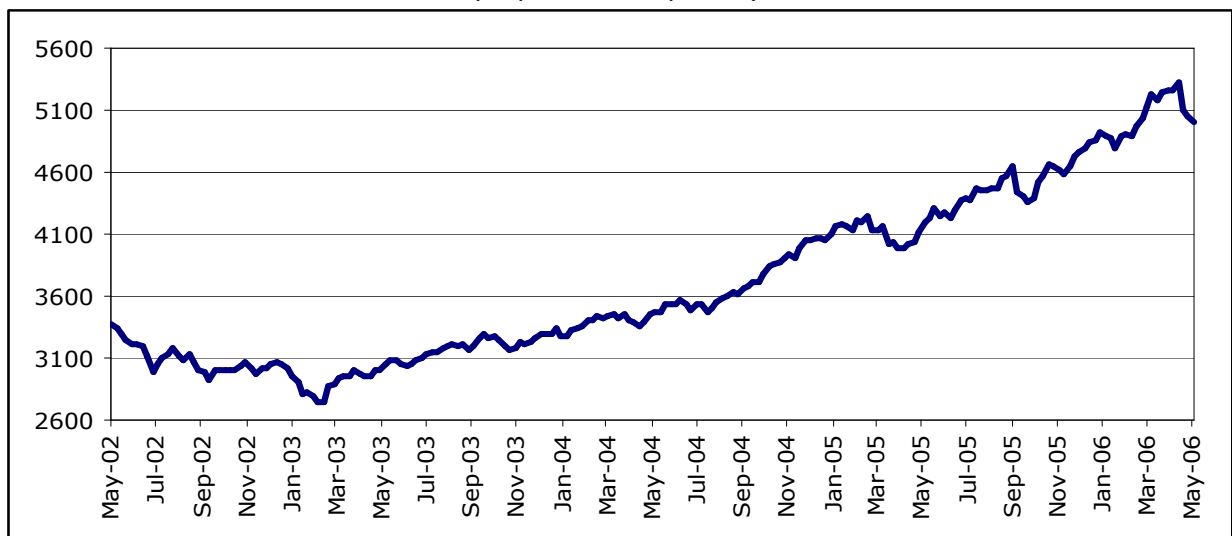
- The S&P/ASX200 finished May weaker (-5.01%) and returned 21.55% for the year. The correction was driven by continued concerns on inflation, and the negative impact that further global interest rate rises would have on economic growth.
- To keep this in perspective, the S&P/ASX200 provided over 10% returns for the first 4 months of the year, and is now at the same level it was in mid March.
- The Consumer Discretionary, Consumer Staples, REITS and Energy sectors outperformed while the Healthcare, Telecommunications and Utilities sectors lagged.

Accumulation Index Performance			
	1 Month	6 Month	12 Month
S&P/ASX 200	-4.7%	9.8%	27.2%
S&P/ASX 200 Industrials	-5.0%	6.0%	19.2%
S&P/ASX 200 Resources	-3.8%	25.2%	64.2%
S&P/ASX Small Ordinaries	-4.0%	10.8%	31.2%
Relative Index Performance to S&P/ASX 200			
Consumer Discretionary	2.5%	-3.7%	-17.0%
Consumer Staples	2.8%	-5.2%	-12.9%
Energy	1.3%	9.1%	23.0%
Financials	-0.2%	-2.9%	-4.4%
Health Care	-4.0%	7.5%	8.3%
Industrials	1.3%	-6.2%	-14.4%
Information Technology	1.5%	-1.2%	3.5%
Materials	-0.2%	13.7%	34.7%
REITS	3.3%	-4.5%	-10.8%
Telecommunications	-3.5%	-14.2%	-46.9%
Utilities	-4.2%	-6.7%	-8.1%

Source: GSJBW Research, IRESS

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

(May 2002 – May 2006)



Source: IRESS

For important information relating to Goldman Sachs JBWere's interests in companies or trusts the subject of this report, please see the inside or outside back cover of this report.

Company Performance: Best and Worst Performing Large-Cap Equities

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

Best	% Change	Worst	% Change
Zinifex	15.2%	DCA Group	-27.5%
Babcock & Brown	9.4%	Telecom Corporation NZ	-21.9%
West Australian News	8.0%	Ansell	-14.1%
Macquarie Goodman	7.6%	Australian Gas Light	-13.9%
Coles Myer	6.2%	Rinker Group	-12.7%
Toll Holdings	5.4%	Oxiana	-12.0%
APN News & Media	5.1%	Newcrest Mining	-11.6%
Leighton Holdings	3.3%	CSR	-11.6%
Promina Group	2.9%	CSL	-10.8%
Multiplex Group	2.6%	James Hardie Industries	-10.6%

Source: IRESS

Significant Company/Economic News

Diversified Financials **Analyst: Ryan Fisher**

- ❑ **Australian Stock Exchange (ASX): Short Term Marketperform; Long Term Hold**
Share Price as at 31/05/06: \$30.50; Valuation: \$27.90
- ❑ **SFE Corporation (SFE): Short Term Marketperform; Long Term Hold**
Share Price as at 31/05/06: \$15.59; Valuation: \$12.30

The Australian Competition and Consumer Commission (ACCC) recently announced that it will not oppose the proposed merger between ASX and SFE, stating that the deal is unlikely to substantially lessen competition. The proposed deal must still be approved by the Federal Treasurer and SFE shareholders. The SFE shareholders meeting is scheduled for July 5.

Under the proposal, ASX has offered 0.51 of its shares for each SFE share, valuing the bid at A\$2.2 billion based on Wenesday's (May 31st) closing ASX share price of A\$30.50. The large fall in the ASX price since the deal was announced has resulted in significant erosion in the effective bid premium, and has led to speculation that SFE shareholders will be pushing ASX to raise its friendly bid.

Transport Sector **Analyst: Paul Ryan**

- ❑ **Patrick Corporation (PRK): Short Term Marketperform; Long Term Hold**
Share Price as at 31/05/06: \$8.84; Valuation: \$7.10
- ❑ **Toll Holdings (TOL): Short Term Outperform; Long Term Buy**
Share Price as at 31/05/06: \$14.73; Valuation: \$14.40

Toll Holdings (TOL) achieved 90% control of Patrick Corporation (PRK) at the end of the month. Earlier in the month TOL's bid looked as though it could have been overshadowed by a rival bid from a consortium led by Macquarie Bank. This bid never eventuated due to the fact a key consortium member withdrew their commitment. Patrick shares will be suspended from official quotation at the close of trading on Tuesday 6 June 2006. TOL gaining control of PRK was taken positively by the market with the stock closing up +5.4% for the month.

Economics **Analyst: Tim Toohey**

- ❑ **Commonwealth Budget 2006/07**

From an economic perspective, the Budget was pro-cyclical. It will provide a net stimulus of 0.4% of GDP in FY07 at a time when the economy is already experiencing acute capacity constraints and showing signs of expanding at a pace that threatens price stability. In the view of GSJBW Research, it has put upward pressure on interest rates. From an equity market perspective, the simplification of the superannuation system was a welcome surprise and will, on the margin, enhance an already positive volume outlook for the financial services industry. While positive for business's undertaking capital expansion, the accelerated depreciation allowance will be largely immaterial for aggregate profit trends across the market.

Commodities & Resources

Analyst: Malcolm Southwood

Iron Ore Settlement

In mid May CVRD and ThyssenKrupp agreed to a +19% price increase for iron ore fines for 2006 contracts. RIO then settled iron ore price negotiations with the Japanese at +19% for fines following CVRD's earlier settlement. Hamersley Iron's agreement with POSCO to raise the price of lump iron ore by +19% effectively concludes the 2006 iron ore negotiations. Late in the month BHP Billiton announced it had replicated these pricing terms for Japanese, Korean and European contracts. A settlement with the Chinese is now the major missing part of the jigsaw. We believe the major Chinese buyers will ultimately accept reality and adhere to this year's benchmark price - but it could still take several more weeks of wrangling.

Economics

Analyst: Tim Tooney

May Interest Rate Rise

The RBA raised the cash rate 25bpts to 5.75% at its May meeting - the first rate rise since March 2005. The RBA media release at the time of the rate rise focused on 3 key elements; household balance sheet adjustments are fading, financial conditions are expansionary fuelling credit growth and underlying inflation is running stronger than they had earlier anticipated. While a modest tightening bias remains, a forecast for economic growth to remain around trend and underlying inflation to remain well within the target band gives the distinct impression that the RBA entertains a high probability that it has now reached the peak of the tightening cycle.

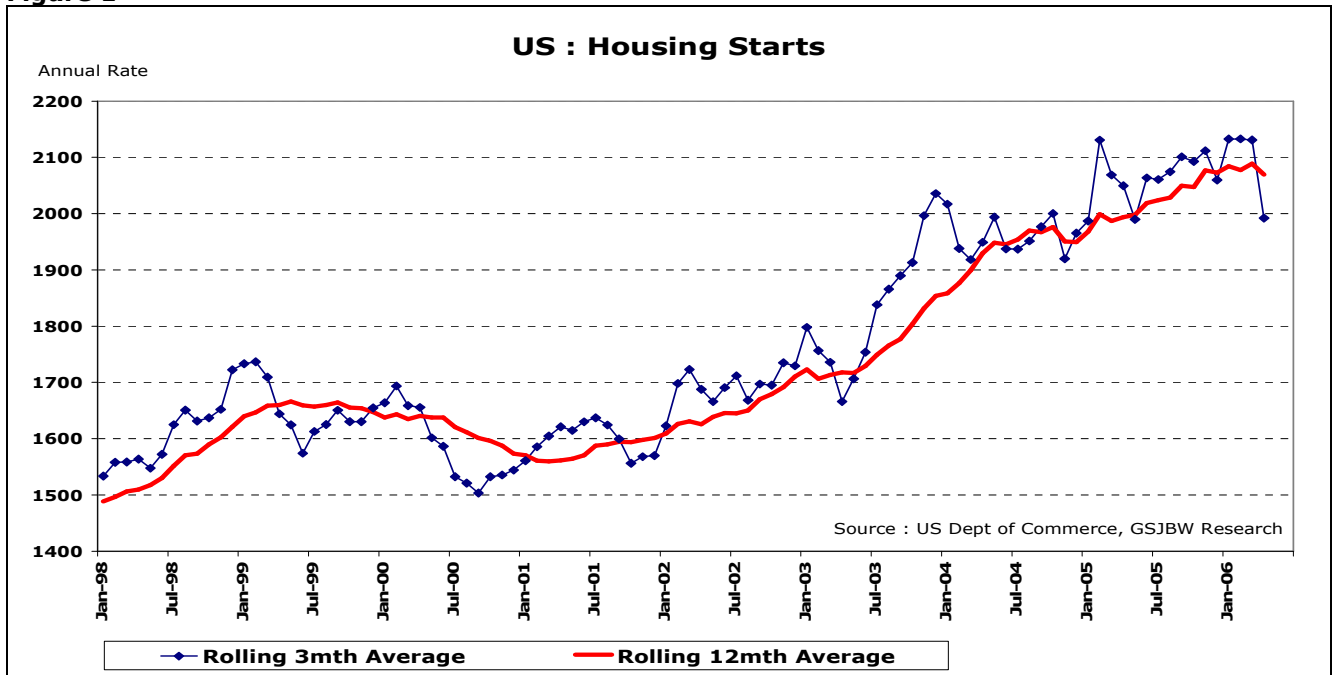
Building Materials

Analyst: Matthew McNea

US Housing Sector

The leading indicators this month were largely negative with US housing starts (-7.6% on pcp - refer Figure One), US housing permits (-14.2% on pcp). Although the aforementioned new home sales were up on the previous month, they were down on the pcp and follow sharp declines in previous months. The data supports the contraction that the market has been anticipating in US housing.

Figure 1



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. Through early 2006, 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/over confident investors tends to be one that occurs (or is at least identified) when the 'typical' cycle is well-advanced. The May pull-back in global markets is consistent with this observation.
- While we remain very comfortable that the basic fundamentals for global equity markets are sound, performance is likely to be more subdued and volatility more pronounced as investors confront an environment of slowing economic growth, persistent inflation risks and tighter liquidity conditions. The US economy is 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 has peaked at 5.00%. More generally, we continue to believe that 'policy normalization' 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. Leadership is now in the process of shifting to Japan, China and Europe.
- So far in 2006, household spending in Australia is showing renewed vigor – a reflection of supportive financial conditions, stabilizing property prices, tax cuts and a still strong labour market. 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. Accordingly, Australia remains locked into a scenario where economic strength will be immediately accompanied by higher interest rates. GSJBW Research expect production (GDP) to expand by 3.2% in FY06 and 3.6% in FY07.
- Despite the May rate increase, 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, state governments are finally addressing infrastructure shortfalls and asset prices are healthy. Thus, we believe that further monetary tightening will be required later in the year (the cash rate is currently 5.75%).
- In our April report, we stated that, on our analysis, ASX300 Industrials were "expensive". While the May correction has obviously improved the valuation picture, we believe it remains well-short of being attractive. The strong performance of the industrials over the past year has been driven by PE 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 largely 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 and cost pressures point to potential problems in 2007 and beyond, corporate news flow should remain supportive over the next six months. The favourable tax changes in the Budget along with further merger & acquisition activity should also help underpin investor optimism.
- Despite the recent correction in some commodities, the earnings revision risk for the major resource stocks remains biased to the upside as current prices continue to track well-above market expectations. This process has now been going for three years, supported of late by further evidence of tangible supply constraints. As noted above, however, the 'global policy normalisation' process is now at a point where it will be a drag on economic activity. The market began to digest this fact in May. 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 – may represent an opportunity to take some profit.
- Consistent with our view that the market is still fully valued, we are finding it difficult to identify stocks that offer compelling absolute value. Within the large-cap defensive universe Macquarie Communications Group, Australian Infrastructure and Metcash provide the best relative value, in our opinion. The major banks have performed strongly over recent months and despite the recent pull-back valuations still look very full – particularly versus global peers. Globally exposed stocks we recommend accumulating during periods of market weakness – News Corporation, Brambles, QBE Insurance, Sonic Healthcare. Sentiment toward the US housing cycle is likely to deteriorate sharply over the next three months. We would be comfortable building a position in Rinker through this period.

GSJBW Market Forecasts:

As at 31/05/2006	Price Earnings Ratio (PER)			Earnings Per Share Growth (%)			Dividend Yield (%)		
	FY05	FY06E	FY07E	FY05	FY06E	FY07E	FY05	FY06E	FY07E
S&P/ASX 300	17.9	14.5	13.8	28.5	24.5	5.4	3.4	4.0	4.2
S&P/ASX 300 Industrials	17.5	16.0	14.7	12.2	9.8	8.5	4.3	4.7	4.9
S&P/ASX 300 Resources	18.9	12.3	12.2	79.3	54.8	0.8	1.6	2.6	2.7

Source: GSJBW Research estimates

Portfolio Management: Building Positions**Sonic Healthcare (SHL)****Analyst: Hamish Tadgell**

- ❑ **Investment View: Short Term Marketperform; Long Term Buy**
- ❑ **Share Price as at 31/05/06: \$14.05; Valuation: \$14.32**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit (\$m)	\$181.1m	\$203.2m	\$228.8m
EPS Growth (%)	26.3%	7.3%	12.0%
PER (x)	21.9x	20.4x	18.2x
Yield (%)	3.2%	3.4%	3.9%

Source: GSJBW Research estimates

Sonic Healthcare's (SHL) core Australian pathology business is geographically diversified and well run, providing a defensive earnings base and opportunities for incremental expansion through small bolt-on acquisitions or the roll out of collection centres. Revenues are secured by the Pathology Quality and Outlays agreement between the industry and the Federal Government and the scalable nature of the business model over a large fixed cost base means that incremental volumes generate solid economic profitability.

We are also attracted to Sonic's offshore growth opportunities, with acquisitions in the US and Europe over the last few years targeted at rolling out their successful business model in what remain relatively fragmented overseas pathology industries. In particular, we believe that further consolidation in the US and Germany, as well as the NHS outsourcing process in the UK provide opportunities for Sonic to diversify its revenue base beyond the Australian market.

We continue to view Sonic Healthcare as a core Australian equity portfolio holding. Although the stock is not cheap, we believe that it deservedly trades at a premium to our valuation given the company's demonstrated ability to deliver returns materially in excess of its cost of capital. We view 'quiet periods' such as the present, in which the stock drifts on little newsflow, as good opportunities to build positions in the stock and would look to accumulate under \$14.00.

Metcash (MTS)**Analyst: Phillip Kimber**

- ❑ **Investment View: Short Term Outperform; Long Term Buy**
- ❑ **Share Price as at 31/05/06: \$4.18; Valuation: \$4.81**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit (\$m)	\$130.8m	\$197.9m	\$232m
EPS Growth (%)	13.5%	20.6%	17.1%
PER (x)	19.2x	15.9x	13.6x
Yield (%)	2.8%	3.5%	4.1%

Source: GSJBW Research estimates

Metcash (MTS) is a wholesaling and distribution company operating in the food, packaged alcohol and fast moving consumer goods industries. The acquisition of Foodland's Australian assets has provided the company with ~40% greater grocery purchasing volumes. This acquisition combined with the strong momentum in the existing wholesale grocery business underpins a strong earnings growth profile for the company in the medium term.

There is no change to our positive investment view on MTS, despite the recent flat share price performance. We acknowledge that the recent full year result was somewhat disappointing versus consensus expectations, particularly in relation to capital management. However we remain cognisant that an acquisition the size of Foodland is unlikely to run completely smoothly and that a five month period is a relatively small time frame to assess the performance of such a major, company transforming acquisition. The lack of a capital management initiative gives rise to other potential growth initiatives, enabled by comfortable interest cover of 9.4x in fiscal 2007.

With the stock currently trading at a more than 10% discount to our valuation we remain comfortable with investors continuing to gain exposure to the company given we forecast that MTS will generate average earnings per share growth of 18.1% per annum over the next three years, compared to 7.5% per annum for the ASX300 Industrials (ex REITs).

Portfolio Management: Switching Ideas

Banking Sector	Analyst: James Freeman
<ul style="list-style-type: none"> ❑ Commonwealth Bank of Australia (CBA): Short Term Marketperform; Long Term Hold Share Price as at 31/05/06: \$43.18; Valuation: \$42.60 ❑ National Australia Bank (NAB): Short Term Marketperform; Long Term Buy Share Price as at 31/05/06: \$35.09; Valuation: \$37.81 ❑ St George Bank (SGB): Short Term Outperform; Long Term Hold Share Price as at 31/05/06: \$29.33; Valuation: \$31.39 	

We believe Commonwealth Bank of Australia (CBA) is unlikely to deliver profit growth (in FY07) in line with its peers given the underperforming retail (mortgage growth) and business banking divisions, combined with a product offering that remains inferior its competitors (in terms of pricing and functionality). This underperformance may see some downside risk to fiscal 2007 consensus earnings and we view the current share price as an opportunity to fund a switch into our preferred banking exposures, given their stronger operational outlook.

St George Bank (SGB) remains our preferred short term pick within the sector. Notwithstanding the impact of a slowing housing market in NSW, SGB's recent first half profit result was solid as reflected by the performance of other businesses (i.e. Institutional, Business Banking and Wealth Management) and geographies (i.e. interstate expansion) as well as management's ability to control costs in periods of slower revenue growth. From a valuation perspective, the stock is close to its peers, despite SGB's superior earnings growth profile, lower risk characteristic and relatively strong dividend yield. We therefore see the current share price level as a buying opportunity.

In our view National Australia Bank (NAB) offers a relatively appealing long term risk/return proposition at current share price levels. Improving momentum was a feature across most divisions in the first half result, which is encouraging given the point at which NAB is positioned in its restructuring program. Management expects the release of capital from its Institutional Markets and Services (IMS) business to continue throughout fiscal 2006/2007, increasing longer term capital management potential as well as the prospects for earnings upgrades. We stress that whilst we believe the business is turning around, the benefits from the current restructuring and investment program are unlikely to flow through before fiscal 2007/2008.

Building Materials	Analyst: Matthew McNee
<ul style="list-style-type: none"> ❑ Boral (BLD): Short Term Marketperform; Long Term Hold Share Price as at 31/05/06: \$9.10; Valuation: \$8.44 ❑ Rinker Group (RIN): Short Term Outperform; Long Term Buy Share Price as at 31/05/06: \$18.50; Valuation: \$20.55 	

While we and the market have been looking for US housing starts to contract through fiscal year 2007, now that it is actually occurring investment sentiment has sharply deteriorated. Rinker (RIN), James Hardie and Boral (BLD) are companies most exposed to this reassessment.

Although BLD is one of Australia's major building and construction materials companies it also has operations within North America, which in fiscal 2006 we forecast will contribute around 27% to the company's earnings. A large majority of these earnings (approximately 80%) will come from the US housing sector. The share price has performed strongly over the past six months, largely in anticipation of a recovery in Australian housing activity. We believe BLD is now fully valued, particularly given the local housing recovery is yet to materialise. With the stock trading at a premium to our valuation and on a similar Price Earnings ratio to RIN, which is trading at a discount to valuation, we recommend that investors switch exposure to BLD and use the proceeds from sales to build portfolio positions in RIN.

RIN is a leading manufacturer and supplier of heavy building materials in the US and Australia. Whilst we acknowledge that the concern towards the US housing sector will also affect sentiment towards Rinker, we are of the view that the company is better positioned to ride out a downturn in the US housing cycle for a couple of reasons. Firstly, only around half of US earnings are derived from US housing. The balance of earnings come from non-housing and engineering, areas that we forecast will continue to report strong growth into fiscal 2008. Additionally, the company has a strong balance sheet and even accounting for the capital management initiatives this year we forecast the company will be debt free by the end of next fiscal year. With the stock trading cum the proposed capital return (subject to favourable ruling by the Australian Taxation Office and shareholder approval*) this creates a timely opportunity to switch into RIN.

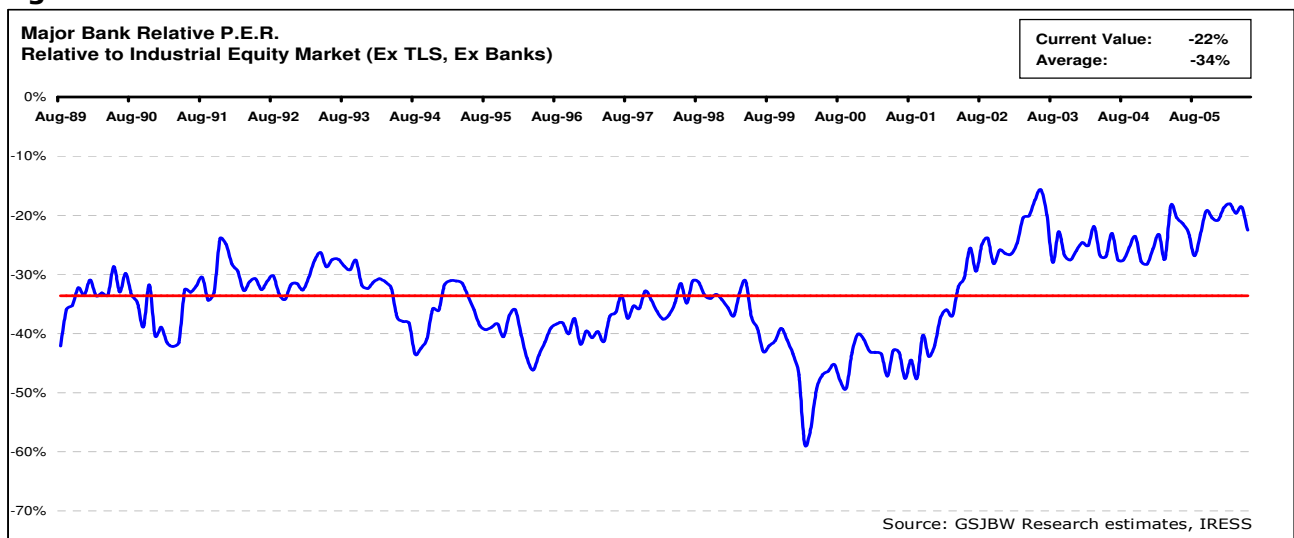
*Should approval be granted, payment should be 17 August 2006 with a record date of 25 July 2006.

Portfolio Management: Banking Sector Update

The major banks in Australia now appear expensive relative the rest of the domestic equity market. In an environment where the prospect of higher interest rates appears likely and where competitive pressures are mounting, the medium term outlook for the banks is challenging. Following the recent first half earnings reporting season, we believe it is timely to review the sector.

The ongoing positive re-rating of the major banks versus the market indicates the sector is fully valued (if not arguably overvalued!). On our forecasts, the average price/earnings ratio (PER) discount of the banks relative to the domestic non-bank industrials has decreased significantly (21% compared to an average PER discount of 34%) – refer Figure One.

Figure 1



At an industry level, competitive pressures are evidently rising. A trend emerging from the recent reporting season was the shift in deposits towards products with both lower margin and lower fees, which negatively impacted revenue growth for all the banks. We believe the shift into comprehensive fixed-fee accounts (which reduces fees), combined with the cannibalisation of deposits into internet-based products offering higher rates (which squeezes margin), will continue.

A further observation from the reporting season was that bad debts remain at historically low levels, although delinquencies are rising – suggesting a more ‘normalised’ credit environment is likely to return. As a result, we believe there is limited scope for lower bad debt charges to contribute towards earnings surprise in fiscal 2007. Nonetheless, we are of the view that earnings risk is relatively well contained within the sector over the next six months.

Within the sector, our top picks are St George Bank (SGB) and National Australia Bank (NAB). We believe SGB offers good value at current levels and that its growth options (interstate expansion and product diversification) will offset slowing system loan growth. We also like the restructuring stories (i.e. NAB) where successful execution should generate above peer growth over the next three years.

Stock	Dividend Yield (FY07E)	EPS Growth		PE Ratio (FY07E)
		(FY06E)	(FY07E)	
ANZ Banking Group	5.0%	13.2%	7.6%	13.1x
Commonwealth Bank of Australia	5.7%	16.7%	8.8%	13.1x
National Australia Bank	4.9%	14.7%	12.3%	13.2x
St George Bank	5.7%	11.0%	10.2%	13.7x
Westpac Banking	5.5%	10.6%	8.8%	12.7x

Source: Company Data, IRESS, GSJBW Research estimates (At 31 May 2006)

Portfolio Management: Emerging Companies**Salmat (SLM)****Analyst: George Batsakis**
 Investment View: Short Term Underperform; Long Term Hold
 Share Price as at 31/05/06: \$2.68; Valuation: \$4.25

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit (\$m)	\$27.1m	\$30.2m	\$35.4m
EPS Growth (%)	-4.5%	10.8%	16.8%
PER (x)	11.6x	10.5x	9.0x
Yield (%)	6.0%	6.3%	7.1%

Source: GSJBW Research estimates

At the beginning of the month, Salmat (SLM) announced that Coles Myer (CML) has decided not to renew its advertising catalogue distribution business (switching to PMP Limited). The contract related to the distribution of catalogues for Coles Supermarkets, Bi-Lo supermarkets and Target and generates 6.7% of SLM revenue. SLM expects the loss of the CML sales volume will be replaced by recently secured new business contracts and expected new business.

We believe demand for catalogues from retailer and consumer goods companies remains strong given their effectiveness as an advertising medium. However, the key issue for our SLM profit forecasts is the sustainability of profit margin as PMP and SLM battle for market share. PMP is SLM's major competitor in catalogue distribution and is seeking to improve the utilisation of recently expanded print facilities, as well as a new catalogue distribution service technology and automated collation of catalogues. In our view, PMP's new service will give it a competitive advantage over SLM's catalogue business in the near term, as it seeks greater economies of scale by increasing sales volume.

Following these recent developments we have removed SLM from the Growth Model Portfolio as we expect the increased competition and loss of market share to prove a headwind for the stock. Whilst we maintain that SLM has a strong business model, we believe that potential earnings risks and margin pressure in the Targeted Media/catalogue distribution business will see the share price underperform in the short term.

Timbercorp (TIM)**Analyst: Nga Luu**
 Investment View: Short Term Outperform; Long Term Buy
 Share Price as at 31/05/06: \$3.71; Valuation: \$4.23

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit (\$m)	\$72.1m	\$84.3m	\$105.4m
EPS Growth (%)	26.2%	9.4%	19.0%
PER (x)	14.5x	13.3x	11.2x
Yield (%)	2.4%	2.7%	3.0%

Source: GSJBW Research estimates

We believe the tax cuts announced in the budget are going to ensure that Timbercorp (TIM) sell out of their projects in FY06 as investors take advantage of the one-off arbitrage opportunity whereby they can lock in tax deductions at a higher tax rate and then pay lower tax rates when the projects become income generating. Another positive is the government's recent announcement that the 12-month pre-payment rule for forestry will remain in place until June 2008, with proposals to legitimize and encourage further investment.

Building up the forestry land bank has been a capital intensive exercise for TIM but we believe it is now almost at the stage where it can sustain 8,000ha-9,000ha pa of planting on a perpetual basis by utilising second rotation land, freeing up cash flow in the business. We view TIM's large scale and project pipeline as key assurances that it will continue to offer quality projects to investors in the mid-term. Beyond this, we expect TIM will seek to identify new commodities and/or geographies appropriate to agribusiness investment to drive reasonable growth.

Other than sales from new Horticulture projects, TIM derives 3 annuity revenue streams via management fees (for establishment and operational management of the projects), rental/royalty fees (for use of TIM's land and facilities for each project) and incentive fees (where TIM exceeds a base expectation for the internal rate of return of a project). Annuity income provides a more defensive profile to TIM over the longer term and as projects mature, annuity income will become increasingly important to the earnings composition for TIM.

Stock Selection Using Quantitative Techniques

Event Study: Director Trading – The search for information asymmetry

Our Quantitative Research Team have conducted an event study to investigate the price performance in the lead up to, and post, the purchase or sale of company shares by a company insider. By using Director trading data the aim was to search for information asymmetry. This is an implicit assumption in the insider trading signal. That is, company insiders can benefit from their superior knowledge (this does not imply that insiders are trading non-public information) to make excess returns when buying and selling shares. The ability to unlock the motivating factor to directors trading provides valuable insight into long term performance.

Under ASX listing rules, companies are required to lodge a Directors’ Interest Notice with the ASX within 5 business days after the transaction occurred. To assist investors being made aware of this trading activity, we provide a concise summary of the major directors’ interest changes near the front of both the Daily Cable and Australian Equities Daily.

There are numerous motivating factors for directors to **divest** their holdings. These include:
 Diversification
 Deteriorating outlook for the company
 Profit realisation after significant share price performance
 Personal reasons (e.g. divorce)

The catalysts for insider **buying** are:
 Shareholder remuneration (Options exercise, Employee share schemes and direct share issues)
 Regulated by the company (e.g. minimum holdings by company directors)
 The investment outlook (e.g. insider’s knowledge of the company)

Our findings support the fact that an overriding consideration to trade is the price performance leading into the trade. Performance is a big motivator of director sell trades. Within the ASX 300 and overall universe, directors enjoyed a 30% excess return prior to the divestment of their shares. Additionally, 72% of director selling followed a positive 12 month share price gain, with 60% of sales following a gain of at least 15%.

This performance for the sell trades is twice as strong as the buy stocks, which interestingly still exhibit significant positive excess returns. This highlights that directors are not afraid to buy after the market has started to re-rate their company.

The results of the study found the performance of the company in the lead-in to the trade appears to be a greater incentive to transact across the **smaller capitalised stocks** than the **larger capitalised stocks**. The return differential within the larger capitalised stocks is almost neutral across sell and buy trades. This suggests that price momentum is not as strong a consideration as it is with smaller capitalised stocks.

The table below highlights the current top rankings in GSJBW’s large industrial stock screening model, as well as changes in rankings over the last month:

Rank	Company	EVA Spread: Level	EVA Spread: Trend	Earnings Revision: Actual	Earnings Revision: Predicted	Positive RSI	ROFE/ PEG	TOTAL	Prev. Rank (31-Apr-06)	Change
		(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	3	27	85	1	0
2	RIO	13	11	15	15	6	21	82	26	24
3	ASX	15	14	9	7.5	6	30	81	2	-1
4	PPT	14	15	8	7.5	6	28	80	3	-1
5	CPU	10	12	9	15	7	26	79	10	5
6	RMD	11	12	13	15	5	23	78	12	6
7	LEI	14	2	12	15	3	27	74	20	13
8	UTB	13	14	11	7.5	6	22	74	6	-2
9	BBG	12	13	7	15	1	25	72	4	-5
10	COH	10	8	11	15	7	21	72	8	-2
11	CML	11	9	8	7.5	10	26	72	9	-2
12	BHP	5	0	14	15	7	29	70	14	2

Source: GSJBW research estimates

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 May 2006:

There were no changes during the month of May

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

Source: GSJBW Research

Our changes to the Defensive Portfolio during May 2006:

Reduced: Commonwealth Bank of Australia, Australian Foundation Investment Company

Increased: Australian Gas Light Company, National Australia Bank, Rinker Group

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

Source: GSJBW Research

Our changes to the Balanced Portfolio during May 2006:

Reduced: Commonwealth Bank of Australia, Australian Foundation Investment Company, AXA Asia-Pacific Holdings
 Increased: Australian Gas Light Company, Healthscope, National Australia Bank, Rio Tinto, Rinker Group

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

Source: GSJBW Research

Our changes to the Growth Portfolio during May 2006:

Removed : Salmat

Reduced: Symbion Health, Australian Foundation Investment Company

Added : ConnectEast

Increased: Healthscope, National Australia Bank, Rio Tinto, Rinker Group

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

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GSJBW Recommendation Changes in May

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Australian Pipeline Trust	APA	Marketperform	Underperform	Hold	Sell
Austar United Communications	AUN	-	Marketperform	Hold	Buy
Bluescope Steel	BSL	Marketperform	Underperform	-	Hold
Lion Nathan	LNN	Marketperform	Underperform	-	Hold
Macquarie Airports	MAP	Marketperform	Outperform	Hold	Buy
Macquarie Bank	MBL	Marketperform	Underperform	-	Hold
McGuigan Simeon Wines	MGW	-	Underperform	Hold	Sell
Salmat	SLM	Underperform	Marketperform	Hold	Buy
Westpac Banking Corporation	WBC	Marketperform	Underperform	-	Hold
Zinifex	ZFX	-	Outperform	Buy	Hold

Source: GSJBW Research

Referred to in Document:

Company Name	Stock Code	Share Price (as at 31 May 2006)	Valuation	Short Term Recommendation	Long Term Recommendation
Australian Foundation Investment Co	AFI	\$4.60	\$4.95	N/A	BUY
Australian Gas Light Company	AGL	\$16.70	\$17.90	Not Rated	Not Rated
Australian Infrastructure Fund	AIX	\$2.09	\$2.43	Marketperform	BUY
Alesco Corporation	ALS	\$9.75	\$9.22	Marketperform	BUY
Alinta	ALN	\$10.35	\$10.90	Not Rated	Not Rated
Australand Holdings	ALZ	\$1.96	\$1.84	Marketperform	BUY
Australian Pipeline Trust	APA	\$4.07	\$4.17	Marketperform	HOLD
Ansell Healthcare	ANN	\$9.79	\$9.60	Marketperform	HOLD
ANZ Banking Group	ANZ	\$26.45	\$23.18	Marketperform	HOLD
APN News & Media	APN	\$5.20	\$5.15	Marketperform	HOLD
Australian Stock Exchange	ASX	\$30.50	\$27.80	Marketperform	HOLD
AXA Asia Pacific	AXA	\$5.96	\$5.95	Marketperform	BUY
Billabong International	BBG	\$14.57	\$15.40	Outperform	BUY
BHP Billiton	BHP	\$28.23	\$24.87	Outperform	BUY
Brambles Industries	BIL	\$10.66	\$10.80	Outperform	BUY
Boral	BLD	\$9.10	\$8.44	Marketperform	HOLD
Bluescope Steel	BSL	\$7.62	\$8.42	Marketperform	HOLD
Commonwealth Bank of Australia	CBA	\$43.18	\$42.60	Marketperform	HOLD
Coca-Cola Amatil	CCL	\$7.00	\$7.80	Underperform	HOLD
ConnectEast	CEU	\$1.14	\$1.41	Marketperform	BUY
Coles Myer	CML	\$11.37	\$11.68	Not Rated	Not Rated
Cochlear	COH	\$49.20	\$51.21	Outperform	BUY
Computershare	CPU	\$7.77	\$6.60	Marketperform	HOLD
Crane Group	CRG	\$12.40	\$14.30	Outperform	BUY
CSL	CSL	\$51.50	\$37.14	Marketperform	HOLD
CSR	CSR	\$3.58	\$3.15	Underperform	SELL
Fosters Group	FGL	\$5.33	\$6.40	Marketperform	BUY
Hills Industries	HIL	\$4.52	\$4.45	Outperform	HOLD
Healthscope	HSP	\$4.35	\$4.33	Marketperform	HOLD
James Hardie Industries N.V.	JHX	\$8.45	\$9.71	Marketperform	HOLD
Leighton Holdings	LEI	\$17.27	\$14.56	Underperform	SELL
Lion Nathan	LNN	\$7.75	\$8.30	Marketperform	HOLD
Macquarie Airports	MAP	\$3.04	\$3.33	Marketperform	HOLD
Macquarie Communications Infrastructure Group	MCG	\$5.38	\$6.70	Outperform	BUY
Macquarie Goodman Group	MGQ	\$5.54	\$4.28	Marketperform	HOLD
McGuigan Simeon Wines	MGW	\$2.65	\$3.55	Underperform	HOLD
Mirabooka Investments	MIR	\$1.87	\$1.97	N/A	BUY
Matcash	MTS	\$4.18	\$4.81	Outperform	BUY
Multiplex Group	MXG	\$3.14	\$2.96	Underperform	SELL
National Australia Bank	NAB	\$35.09	\$37.81	Marketperform	BUY
Newcrest Mining	NCM	\$20.15	\$13.04	Underperform	HOLD
News Corporation Inc.	NWS	\$25.90	\$27.80	Outperform	BUY
Origin Energy	ORG	\$6.87	\$7.55	Marketperform	HOLD
Oxiana	OXR	\$3.00	\$2.11	Outperform	BUY
Publishing and Broadcasting	PBL	\$18.55	\$17.85	Outperform	BUY
Promina Group	PMN	\$5.68	\$5.65	Marketperform	BUY
Perpetual Trustees Australia	PPT	\$67.64	\$68.45	Marketperform	HOLD
Patrick Corporation	PRK	\$8.84	\$7.10	Marketperform	HOLD
QBE Insurance Group	QBE	\$21.42	\$22.20	Outperform	BUY
Ramsay Healthcare	RHC	\$10.00	\$10.23	Marketperform	HOLD
Rinker Group	RIN	\$18.50	\$20.55	Outperform	BUY
Rio Tinto	RIO	\$78.10	\$71.86	Outperform	BUY
Resmed Inc	RMD	\$5.81	\$6.19	Marketperform	HOLD
Rural Press	RUP	\$10.73	\$10.20	Marketperform	HOLD
Sydney Futures Exchange	SFE	\$15.59	\$12.30	Marketperform	HOLD
St. George	SGB	\$29.33	\$31.39	Outperform	HOLD
Sonic Healthcare	SHL	\$14.05	\$14.32	Marketperform	BUY
Salmat	SLM	\$2.68	\$4.25	Underperform	HOLD
Symbion Health	SYB	\$3.13	\$3.28	Marketperform	BUY
Tabcorp Holdings	TAH	\$15.22	\$16.70	Underperform	HOLD
Telecom Corporation of New Zealand	TEL	\$3.74	NZ\$3.92	Marketperform	SELL
Ten Network Holdings	TEN	\$2.97	\$3.05	Marketperform	HOLD
Timbercorp	TIM	\$3.71	\$4.23	Outperform	BUY
Toll Holdings	TOL	\$14.73	\$11.95	Outperform	BUY
UNITAB	UTB	\$14.60	\$13.60	Not Rated	Not Rated
West Australian Newspapers	WAN	\$8.96	\$8.35	Outperform	BUY
Westpac Banking Corporation	WBC	\$22.94	\$22.89	Marketperform	HOLD
Wesfarmers	WES	\$34.65	\$35.50	Marketperform	HOLD
Woolworths	WOW	\$18.60	\$19.00	Outperform	BUY
Zinifex	ZFX	\$11.92	\$10.07	Outperform	BUY

Source: IRESS, GSJBW Research

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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 thematic and other issues such as index changes. Addresses two issues: (1) What is the potential news flow; and (2) What is the share price reflecting?
Relative Performance:	Historic rolling 3 month performance versus the broader market. Stocks are rated according to their relative ranking.
Valuation Support:	Considers a range of valuation methodologies, including discounted cash flow (DCF) valuation, PER, dividend yield and any other relevant measure.

LONG TERM (> 6 MONTHS)

Industry Structure:	Based on Goldman Sachs JBWere industry structure ranking. All industries relevant to the Australian equity market are ranked, based on a combination of Porter's Five Forces of industry structure as well as an industry's growth potential, relevant regulatory risk and probable technological risk. A company's specific ranking is based on the proportion of funds employed in particular industry segments, aggregated to determine an overall company rating, adjusted to reflect a view of the quality of a company's management team.
EVA™ Trend: ¹	EVA™ trend forecast for coming two years. Designed to reflect "turnaround stories" or to highlight companies Goldman Sachs JBWere analysts believe will allocate capital poorly in the estimated timeframe. (An ROE measure is used for insurance stocks in conjunction with an assessment of the strength of an insurer's balance sheet).
Growth Option:	A qualitative and quantitative assessment of a company's long term growth options that the analyst believes should be considered and possibly recognised by the market.
Price:Base Case DCF:	The premium or discount to base case DCF valuation at which the stock is trading relative to the average premium or discount across the market.

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

For Insurers

Return On Equity:	Rating taking into account the expected level and trend of ROE over the next two to three years.
Balance Sheet:	Analyst's assessment of the quality and strength of the insurer's balance sheet, including conservatism of provisioning, sufficiency of capital, and quality of capital.

For REITs

EPU Growth:	Ranking of Earnings Per Unit growth relative to other listed Real Estate Investment Trusts. Used instead of EVA™ Trend.
Strategy:	Used instead of industry structure as many REIT investors are intra rather than inter sector focussed.
Yield:	Yield relative to the REIT sector average. Used instead of Valuation Support.

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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.

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