Goldman Sachs JBWere

Private Wealth Management

Investment Strategy Bulletin

Australian Equities: Portfolio Strategy Review 30 June 2006

- The S&P/ASX200 Accumulation Index finished the month of June slightly higher, up +2.1%, following a volatile month and returned +23.9% for the year. Investors continued to focus on the prospect of rising interest rates and this saw high-beta stocks come under pressure.

- The RBA decided to leave rates unchanged when they met in June, but risks surrounding inflation have increased this month, adding weight to our view that there will be a further rate rise in the fourth quarter of this year.

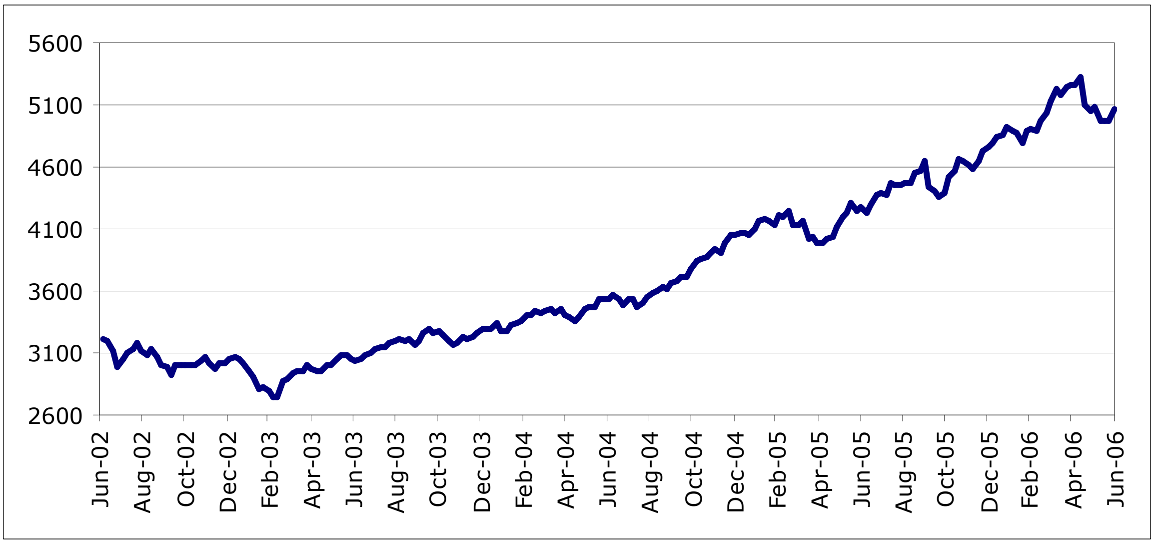
- Sectors that outperformed this month include Consumer Staples, REITS, Financials and Utilities while the Consumer Discretionary, Industrials, Materials and Telecommunications sectors lagged.

	Accumulation Index Performance		
	1 Month	**6 Month**	**12 Month**
S&P/ASX 200	2.1%	8.8%	23.9%
S&P/ASX 200 Industrials	1.2%	4.9%	16.1%
S&P/ASX 200 Resources	-1.5%	15.9%	48.2%
S&P/ASX Small Ordinaries	1.1%	10.5%	25.5%
	Relative Index Performance to S&P/ASX 200		
Consumer Discretionary	-2.6%	-3.8%	-16.2%
Consumer Staples	0.9%	-1.3%	-8.2%
Energy	-0.1%	5.1%	10.9%
Financials	1.4%	-0.4%	-0.8%
Health Care	0.4%	-5.0%	2.1%
Industrials	-1.5%	-8.9%	-16.8%
Information Technology	-0.1%	4.9%	7.0%
Materials	-1.5%	8.5%	25.9%
REITs	4.2%	-2.4%	-5.9%
Telecommunications	-4.3%	-17.2%	-45.8%
Utilities	1.8%	-5.1%	-2.2%

Source: GSJBW Research, IRESS

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

(June 2002 – June 2006)



Source: IRESS

Company Performance: Best and Worst Performing Large-Cap Equities

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

Best	% Change	Worst	% Change
Caltex Australia	21.45%	Rinker Group	-13.41%
Macquarie Goodman Group	10.43%	Zinifex	-12.21%
Macquarie Communications Infrastructure Group	9.18%	Downer EDI Limited	-11.21%
OneSteel Limited	8.98%	Boral	-11.07%
Babcock & Brown Ltd	8.97%	Metcash	-10.43%
ING Office Fund	7.53%	A.B.C. Learning	-10.37%
Woolworths Limited	6.90%	James Hardie Indust.	-9.73%
GPT Group	6.85%	Telecom Corporation	-9.72%
Australian Stock Exchange	6.72%	CSR Limited	-8.97%
Investa Property Group	6.54%	WorleyParsons	-8.72%

Source: IRESS

Significant Company/Economic News

Infrastructure **Analyst: Alison Booth**

- **Macquarie Infrastructure Group (MIG): Short Term Marketperform; Long Term Hold**
  Share Price as at 30/06/06: $3.36; Valuation: $3.51

Macquarie Infrastructure Group (MIG) provided an update on the demerger of its interests in its mature Australian road assets. MIG's interests in the Eastern Distributor, M4 and M5 will be transferred into the newly formed Sydney Roads Group. The demerger will take place by IPO to raise $125 million of new capital and existing MIG shareholders will receive an in-specie distribution of one Sydney Road Group stapled security for every three MIG stapled securities held. Shares in MIG ended the month flat +0.6%.

Transport Sector **Analyst: Paul Ryan**

- **Brambles Industries (BIL): Short Term Outperform; Long Term Buy**
  Share Price as at 30/06/06: $11.00; Valuation: $10.80

During the month Brambles (BIL) announced the successful sale of Cleanaway Australia and New Zealand & Industrial Services Australia to an affiliate of US private equity firm Kohlberg Kravis Roberts & Co. for proceeds totalling A$1.8275 billion cash. David Turner, the CEO of Brambles, said that "the businesses had attracted very strong interest from trade and private equity buyers." The sale is expected to be completed in early July 2006. Additionally, Brambles is in the final stages of completing the sale of Cleanaway UK. The Chairman of Brambles, Don Argus, said "the sale of these businesses represents a significant milestone in the execution of our strategy to focus on CHEP and Recall." At the end of the month BIL announced the sale of Cleanaway UK to a trade buyer, Veolia ES Holdings plc is a subsidiary of French environmental services Veolia Environmental SA. The total cash consideration for the sale is A$1,460 million. Upon announcement of the sale the company commented that "Brambles divestment programme is now essentially complete and has generated proceeds significantly more than initial estimates." The share price responded favorably to the news of the asset sales and closed +3.2% for the month.

Materials **Analyst: Matthew McNee**

- **James Hardie Industries N.V. (JHX): Short Term Marketperform; Long Term Hold**
  Share Price as at 30/06/06: $7.70; Valuation: $9.82

The Australian Taxation Office (ATO) advised that it had refused to endorse the Special Purpose Fund (SPF) as a tax concession charity. The fund was established under the Final Funding Agreement James Hardie entered into with the NSW Government to manage future asbestos compensation payments. The ATO has stated that the scope of activities of the Fund does not meet current legislative requirements for endorsement and therefore would not be exempt from income tax. James Hardie CEO Louis Gries told the market that they were "disappointed with the decision" and that "this development places the viability of the Final Funding Agreement in doubt." A more positive decision was reached toward the end of the month when the ATO granted tax deductibility for contributions the company makes into the SPF. James Hardie closed for the month down -8.9%.

Infrastructure **Analyst: Alison Booth**

- **GasNet Australia Group (GAS): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 30/06/06: $2.58; Valuation: $2.71
- **Babcock & Brown Infrastructure (BBI): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 30/06/06: $1.59; Valuation: $1.58
- **Australian Pipeline Trust (APA): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 30/06/06: $4.27; Valuation: $4.17

Australian Pipeline Trust (APA) and Babcock & Brown Infrastructure (BBI) who jointly own 14.2% of GasNet Australia (GAS) announced a joint bidding agreement to acquire GAS. The consideration under the offer will be 1.545 BBI stapled securities for each GAS stapled security, representing a value of $2.55 (cum dividend) or $2.45 (ex dividend) per GAS stapled security. The Directors of GAS unanimously rejected the proposal stating that it "was not in the best interests of GAS security holders" with the offer "materially undervaluing" the company and described the offer as being "highly conditional." Shares in GAS finished the month up +12.7%, with BBI also higher +2.9% and APA +4.9%.

Materials **Analyst: Andrew Gibson**

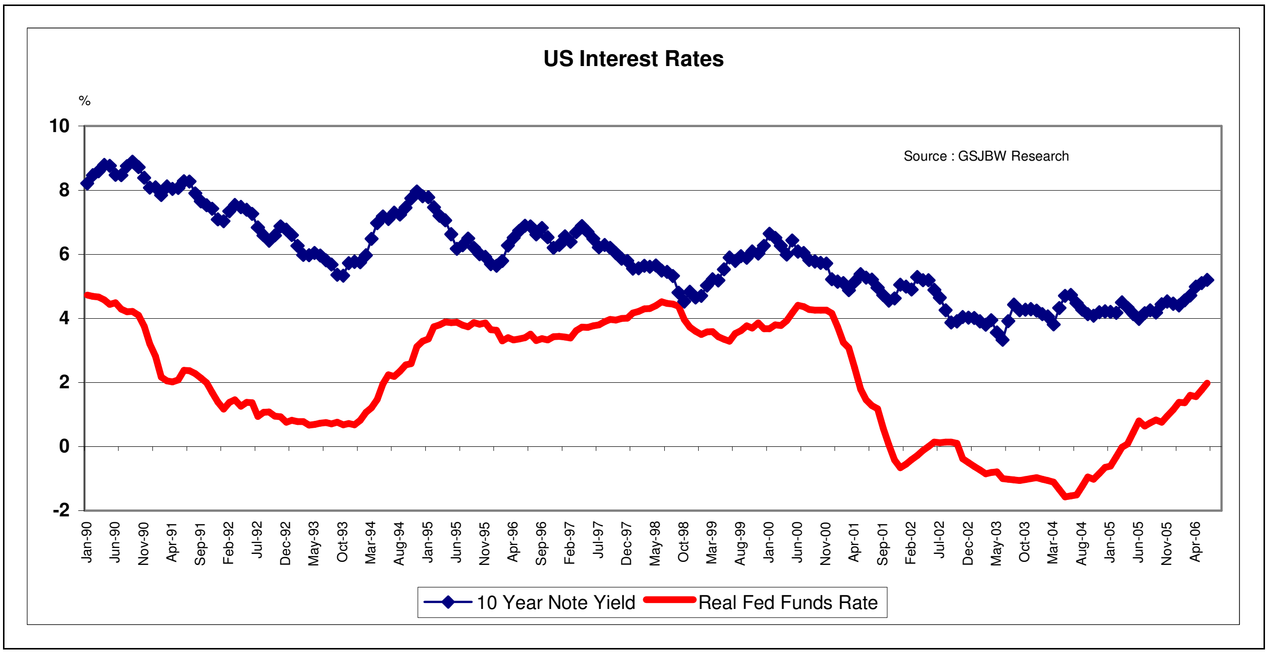
- **OneSteel (OST): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 30/06/06: $4.07; Valuation: $4.19
- **Smorgon Steel (SSX): Short Term Not Rated; Long Term Not Rated**
  Share Price as at 30/06/06: $1.68; Valuation: $1.58

OneSteel (OST) and Smorgon Steel Group (SSX) announced that they had reached an agreement whereby OST will acquire all outstanding shares in SSX. SSX shareholders will receive a combination of OST shares and cash. SSX shareholders will receive 9 shares in OST for every 22 shares held in SSX. In addition SSX shareholders will receive between 6.2 and 22.6 cents per share. In a statement to the market by both companies, Peter Smedley, Chairman of OneSteel, stated that "the transaction represents the next step in the restructuring of the Australian steel industry. It will further consolidate the sector leading to lower cost and more efficient steel industry…" The transaction was unanimously recommended by the Directors of SSX in the absence of a superior offer. The transaction is expected to be completed by late October 2006, subject to approval by the ACCC. Shares in both companies reacted favourably to the news with SSX closing +26.3% and OST +12.7%.

Economics **Analyst: Tim Toohey**

- **US Interest Rates**

At the end of the month The Federal Open Market Committee (FOMC) raised the federal funds rate target by another 25 basis points to 5.25%, marking the 17th progressive price increase since the committee commenced its tightening campaign in June 2004. In a statement that accompanied the decision the committee explained that any assessment of whether to raise rates further on August 8 would be based on economic data which will be released over the next six weeks. In its statement the committee recoginised both the weaker growth and higher core inflation data. Moreover, the wording on inflation risks was softer than it had been in recent speeches.



Australian Equities: Key Issues for Portfolio Strategy

- From early 2005, a buoyant global economy combined with a still generous interest rate environment (i.e. plenty of liquidity) to encourage investors (and companies via M&A activity) to take on more risk. Accordingly, growth assets significantly outperformed defensive assets. Through early 2006, the hunger for risk spilled over into 'high beta' areas such as commodities and emerging markets. Over recent months, this hunger has obviously tempered. While global economic conditions (and company profitability) have remained healthy, the uptrend in global interest rates has finally reached a point (more-so in the US) where it will impact economic performance, the valuation of financial assets and how investors feel. At this stage, we remain confident that the global economy will continue to perform relatively well into 2007 and 2008. The marginal global investor, however, is likely to favour a more risk-averse approach over the next 6-12 months.
- 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. This outlook should ensure that US Federal Funds Rate has now peaked at 5.25% - the view of Goldman Sachs Research. Looking beyond the US, we believe the 'policy normalization' has further to run and that the general level of global interest rates is still low relative to the current strong nominal economic environment. 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 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, income tax cuts are now flowing through, 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%). A poor inflation result for the June quarter (released 26 July) could see the RBA move in August.
- In our April report, we stated that ASX300 Industrials were "expensive". While the May/June 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. 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 has begun to digest this fact over recent months. 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 through early 2006 – 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, ConnectEast Group** and **Promina** provide the best relative value. 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 – **Brambles, QBE Insurance, BHP Billiton, Aristocrat Leisure**, **Sonic Healthcare**. Sentiment toward the US housing cycle is deteriorating sharply – a reassessment that is likely to continue over the next three months. We are comfortable building a position in **Rinker** through this period.

GSJBW Market Forecasts:

As at 30/06/2006	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	14.4	13.8	28.5	24.9	4.8	3.6	4.0	4.2
S&P/ASX 300 Industrials	17.6	16.1	14.9	12.2	9.4	8.2	4.3	4.7	4.9
S&P/ASX 300 Resources	18.5	11.9	11.9	79.4	56.9	-0.4	2.2	2.6	2.7

Source: GSJBW Research estimates

Portfolio Management: Topical Issues

Brambles Industries (BIL) **Analyst: Paul Ryan**

- **Investment View: Short Term Outperform; Long Term Buy**
- **Share Price as at 30/06/06: $11.00; Valuation: $10.80**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$815.4m	$642.3m	$692.0m
EPS Growth (%)	35.1%	-5.7%	20.7%
PER (x)	23.1x	24.4x	20.3x
Yield (%)	2.2%	2.5%	3.0%

Source: GSJBW Research estimates

BIL has now substantially completed its asset divestment program, with the sale of the Brambles Industrial Services and Cleanaway Australia and UK businesses during the month. The divestment program has generated total proceeds of US$3.52bn. We expect an announcement regarding the return of surplus capital to shareholders in August / September. We maintain our positive view on the stock and believe there is still upside risk to our forecasts from an improvement in CHEP margins, particularly in Europe as restructuring benefits are captured. In addition, we expect the stock to benefit from a likely index upweight in December, following unification of its DLC structure.

Longer term, we believe the restructuring of Brambles will create a higher quality business. The divestment of the Cleanaway, Industrial Services and Regional Businesses improves Brambles' earnings quality, earnings growth and cash flow generation. The restructuring also provides a mechanism to significantly improve the efficiency of BIL's capital structure, providing opportunities to further re-invest in the higher growth CHEP business and/or return funds to shareholders. In our view, 'New Brambles' will be a lean company, with strong earnings and cash flow generation driven by the long duration and relatively low-risk CHEP business.

Fosters Group (FGL) **Analyst: Paul Ryan**

- **Investment View: Short Term Marketperform; Long Term Buy**
- **Share Price as at 30/06/06: $5.47; Valuation: $6.30**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$608.1m	$732.2m	$860.5m
EPS Growth (%)	12.2%	19.1%	16.9%
PER (x)	18.1x	15.2x	13.0x
Yield (%)	3.8%	4.1%	4.6%

Source: GSJBW Research estimates

In our view, Foster's (FGL) has an attractive long term risk/reward profile in a volatile market. We believe the concerns regarding wine oversupply, the high multiple paid for the Southcorp acquisition and FGL's sub-category growth in wine, though justified, are reflected in the current share price.

We believe a neutral view on the stock is warranted in the short term, given execution risk and complexity of the strategy (i.e. integration of domestic sales force and segmentation of brand portfolio by retail channel). However, in a bear case scenario where industry oversupply, retailer consolidation and poor sales execution results in ~5% real price deflation, our analysis shows that FGL would still deliver 12% per annum EPS growth and justify its current share price.

Our long term Buy recommendation reflects the attractive risk/reward offered by FGL at current levels. We are forecasting above average earnings growth over the next 3 years and believe FGL's strategy is sound, i.e. leverage production and distribution scale to accelerate brand investment. In addition, the US wine cycle is moving in its favour.

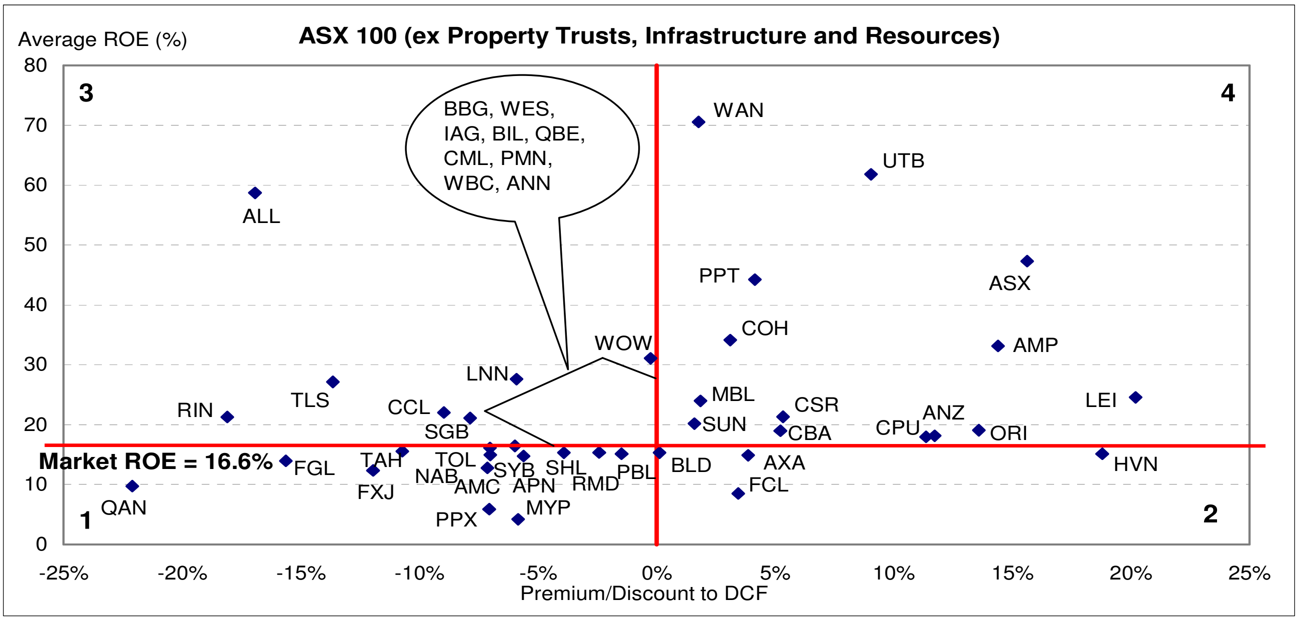
Portfolio Management: Seeking Relative Value

In a recent Research Bulletin ("*Welcome Investors, Farewell Speculators*", 14th June 2006), we highlight our view that selective value has emerged for long term investors, following the May/June market correction. To this end, we identify stocks that represent attractive long term investment opportunities based on key indicators of quality and 'value'.

We remind investors that no valuation metric should be viewed in isolation. As a general guide, if several valuation measures point to a similar investment decision, this provides a more solid foundation on which to proceed. Further, valuation should be both an absolute and relative exercise – it's all very well to sell shares in a company that is trading above valuation, however, it would be inappropriate to reinvest the proceeds back into a market which is trading at a greater premium to valuation than that stock.

On that basis, Figure One maps the large-cap industrials universe (excluding Property Trusts, Infrastructure) in terms of average return on equity (ROE) versus our DCF valuation. The objective of this exercise is to identify stocks that are comfortably valued on both measures and those that are expensive.

Figure One



Source: GSJBW Research estimates

Notes:
Quadrant (1) – stocks trading at a discount to their DCF valuation and below the market ROE[1]
Quadrant (2) – stocks trading at premium to their DCF valuation and below the market ROE
Quadrant (3) – stocks trading at discount to their DCF valuation and above the market ROE
Quadrant (4) – stocks trading at premium to their DCF valuation and above the market ROE

In selecting stocks, we not only recommend investors focus on relatively comfortable valuations and a history of strong returns (ROE) but also on balance sheet strength as well as a relatively attractive industry outlook and earnings/cash flow growth relative to the market. After three years of solid profit growth, there is a clear transition in the earnings leadership emerging (i.e. where will the market generate its incremental earnings growth going forward?). In general, our analysis reveals that, through fiscal 2006/2007, leadership will shift from materials/financial services to stocks where the growth profile is less cyclical and more reflective of structural/organic growth drivers. Companies that are comfortably valued based on the analysis as presented in Table One and who are also earnings leaders[2], include: **Aristocrat Leisure, Billabong International, Rinker Group, Woolworths, Toll Holdings, Brambles Industries, QBE Insurance Group, St George Bank and Foster's Group**.

An interesting observation is that financial stocks dominate the group of companies trading at a premium to valuation and with higher than average historical ROE (quadrant 4). Whilst we acknowledge that companies creating high shareholder value may deserve a premium, it is important to note that financial stocks are more vulnerable to a de-rating if we move into a global macro environment of slowing economic growth and high inflation.

[1]The market ROE is the average of our fiscal 2005 and fiscal 2006 ROE estimates for the ASX 300 Industrials – the same process is applied to the individual stocks.

[2] Calculated on our analysts' EPS growth forecasts (average per annum) over the next 3 years (fiscal 2007 to 2009).

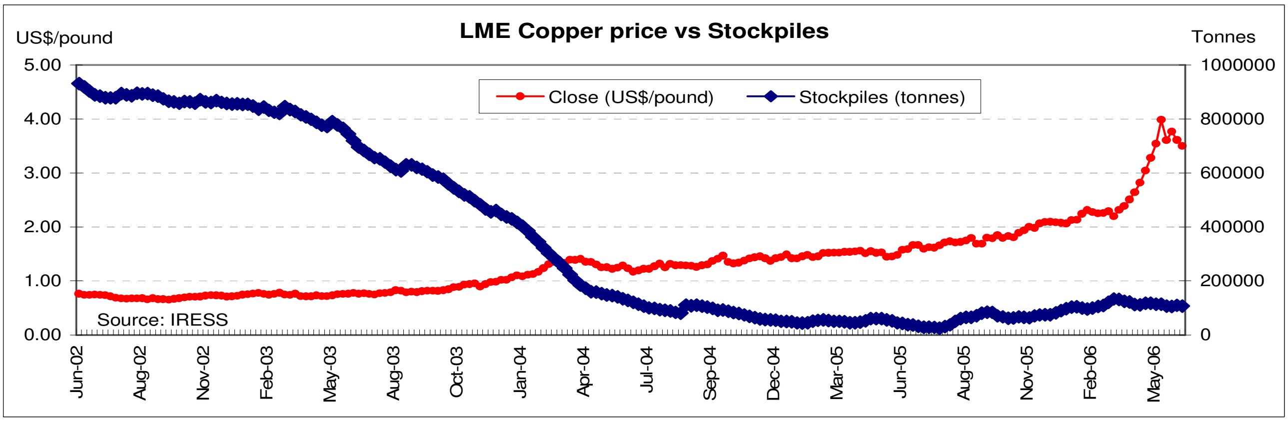
Commodities Update

Commodity prices experienced a sharp price correction in the May/June period. Notwithstanding, we remain of the view that the 'stronger for longer' theme for the commodities story is intact – although we remind investors that commodities are inherently cyclical and highly volatile. Indeed, our positive view is underpinned by appealing supply/demand fundamentals for most raw materials brought about by China's industrialisation.

For the last year or so, the global mining industry has been working at full capacity. In an environment where demand continues to outweigh supply, production risk is present and is reflected by the number of supply disruptions we have been hearing of during that time. In the case of some commodities (e.g. copper), we believe it is likely to take some time before sufficient new supply can be brought on in order for markets to return into surplus. Some of the main factors contributing to this subdued supply outlook are the significant increase in capital and operating costs as well as skills shortage faced by mining companies. With supply struggling to keep up with demand, we believe attractive commodity prices will persist and in turn, positively impact earnings and cash flows for resources companies.

The issue of supply constraints is further reflected by the significantly low inventory levels faced by some commodities – copper is the best example among the base metals (refer Figure One). On our analysis, the nickel and zinc markets will also be in deficit over the next eighteen months.

Figure One



Despite the recent correction, current commodity prices sit well above our long term forecasts (refer Table One) – which are the major drivers of a stock's DCF valuation. On that basis and given our above-mentioned view, we are comfortable for investors to invest in **BHP Billiton (BHP)**, **Rio Tinto (RIO)** and **Woodside Petroleum (WPL)**[3] in periods of market weakness, when they are trading at or close to our DCF valuation. Nonetheless, we highlight that commodity price volatility (and in turn, share prices) will likely continue through fiscal 2007, as long as uncertainty associated with interest rates and the direction of the US economy remains.

Table One

GOLDMAN SACHS JBWERE | COMMODITY PRICE FORECASTS

	Units	Price 30/06/2006	2005 (h)	2006 (f)	2007 (f)	2008 (f)	2009 (f)	2010 (f)	Long Term (Nominal)	Long Term (Real '06)	Basis
A$/US$		0.74	0.76	0.76	0.78	0.75	0.73	0.73	**0.72**	**0.72**	Average for Period
Aluminium	**US¢/lb**	118	86	107	89	85	88	97	**104**	**94**	LME Cash Settlement
Copper	**US¢/lb**	337	167	289	238	200	210	220	**148**	**134**	LME Cash Settlement
Lead	**US¢/lb**	45	44	50	38	35	30	30	**36**	**33**	LME Cash Settlement
Nickel	**US¢/lb**	1013	669	744	730	810	675	615	**555**	**503**	LME Cash Settlement
Zinc	**US¢/lb**	147	63	127	119	103	88	95	**77**	**70**	LME Cash Settlement
Gold	**US$/oz**	616	445	643	694	712	730	748	**520**	**471**	NY Comex
Oil	**US$/bbl**	74	56	66	57	50	45	40	**40**	**36**	West Texas Intermediate

Source: GSJBW Research estimates

[3] DCF valuations: BHP A$24.88; RIO A$71.33 ; WPL A$31.24

Portfolio Management: Emerging Companies

Talent2 International (TWO) **Analyst: George Batsakis**

- **Investment View: Short Term Marketperform; Long Term Buy**
- **Share Price as at 30/06/06: $1.30; Valuation: $1.45**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$3.7m	$5.0m	$6.5m
EPS Growth (%)	-10.8%	30.3%	27.9%
PER (x)	39.4x	30.2x	23.6x
Yield (%)	1.5%	2.3%	3.1%

Source: GSJBW Research estimates

Talent2 (TWO) is a provider of Human Resources management products and services, offering an end-to-end HR Outsourcing (HRO) solutions business. TWO's operations are comprised of three main subdivisions: Talent2 Works (payroll and software business), Talent2 People (executive search and recruitment services) and Talent2 Inside (human resource outsourcing services or management services).

TWO's proposed capital return of 3 cents per share was approved by shareholders at the end of June, in addition to the announcement of a special dividend of 2 cents per share (ex-entitlement dates for these have not yet been announced). We believe the pay out of these surplus funds reflects the group's strong cash generation, driven by high earnings growth combined with low capital expenditure requirements. The company also announced in June HRO deals with Myer and Jones Lang LaSalle.

We remain comfortable with our long term buy recommendation on TWO. We expect the company to achieve above market average earnings per share and growth over the next two years, and the stock continues to trade below our valuation. Underlying our positive view on TWO is continuing strength in the labour market, as well as expanded recruitment operations and the company's fast growing management services business.

Austbrokers Holdings (AUB) **Analyst: Greg Ward**

- **Investment View: Short Term Outperform; Long Term Buy**
- **Share Price as at 30/06/06: $3.15; Valuation: $3.91**

Year End June	2006 Estimate	2007 Estimate	2008 Estimate
Net Profit ($m)	$9.4m	$10.8m	$12.0m
EPS Growth (%)	6.0%	15.6%	11.0%
PER (x)	14.9x	12.9x	11.6x
Yield (%)	4.0%	4.7%	5.6%

Source: GSJBW Research estimates

Austbrokers Holdings (AUB) holds equity interests in 33 Member broking firms operating throughout Australia conducting its core business of general insurance broking. AUB members have a client base of ~175,000 (predominantly SMEs) and employ over 900 people. AUB takes an equity interest in its Members (generally 50% or more) and the individual brokers/partners retain the balance of the equity as Co-owners. The Co-owners retain the day-to-day management and control of each Member Firm, whilst AUB provides strategic, IT and Compliance support and services.

We believe AUB's business model is robust and likely to deliver superior growth over the medium term. The owner-driver model drives growth, ensures compliance, attracts and retains the best personnel in the industry and provides an effective vehicle to consolidate the industry. The increase in compliance requirements over recent years has resulted in significant consolidation of the sector, and we believe given it's market share and strong balance sheet, AUB is well positioned to be a key consolidator in the industry. It is worth noting that insurance brokers are countercyclical to the health of the insurers as they benefit when broker premiums are increasing (when insurers are suffering financially and need to price products rationally).

With AUB continuing to trade at a large discount to our valuation, we maintain our long-term buy recommendation. Our positive view is driven by management's performance to date, its attractive owner-driver business model, strengthening margins and returns and excellent positioning in a poor but rapidly consolidating industry structure.

Stock Selection Using Quantitative Techniques

Mindful that the June year end reporting season will soon be upon us we thought it timely to review the quantitative screens run by GSJBW Quantitative Research team that could provide insight into this period. In last month's edition of *Australian Equities: Portfolio Strategy Review*, we commented on how **trading by corporate insiders** can provide a strong signal and how it can be viewed as giving an early insight into the earnings fortunes of the company. A brief overview of a couple of other screens we thought pertinent to mention are detailed below:

Corporate Governance: This screen is prefaced on the fact that well managed companies should have better operational momentum and therefore a higher probability to produce profit results better than market expectations. In addition, well managed companies will understand the need, and will have the ability, to communicate and manage market expectations. They are therefore likely to provide more reliable earnings outcomes relative to expectations. When looking at the reported surprise for "Board Skills" (a specific rating measure of the Corporate Governance of a company) we can see this measure is consistent over time. In every June reporting season top rated board skill companies have reported a better earnings surprise outcome than low rated board skills companies. The average earnings surprise over the 5 years has been +4.3% for top rated companies versus +0.7% for low rated companies.

Predicted Earnings Revision: This screen provides a forward-looking perspective on earnings revision trends with the underlying concept being – is the trend in consensus earnings likely to be positive, negative or neutral over the coming month? The factor testing finds that the return spread is very impressive with the positive earnings revision bias stocks generating a compound return of +30.3% and negative bias stocks returning a flat +3.5%. Additionally, the persistency in the predicted scores holds well over longer periods as was found when a 6 month buy/ hold strategy was implemented. The compound return only dropped to +25% from +30%. Stocks in the large industrial stock screening model that rank highly on this measure are **Billabong, BHP Billiton, Brambles**, **Bluescope, Cochlear, Computershare, Metcash, Rinker, Rio Tinto and Woolworths.**

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 3 Month	Earnings Revision: Predicted	Positive RSI	ROFE/ PEG	TOTAL	Prev. Rank 31-May-06	Change
		(out of 15)	*(out of 15)*	*(out of 15)*	*(out of 15)*	*(out of 10)*	*(out of 30)*	*(out of 100)*		
1	Australian Stock Exchange	15	14	10	7.5	7	30	**84**	3	2
2	Rio Tinto	13	13	15	15	3	22	**81**	2	0
3	Billabong	12	13	8	15	6	24	**78**	9	6
4	Rinker Group	12	14	5	15	4	27	**77**	1	-3
5	Perpetual	14	15	9	0	8	28	**76**	4	-1
6	Computershare	9	12	8	15	3	26	**74**	5	-1
7	BHP Billiton	5	0	14	15	9	29	**72**	12	5
8	Cochlear	10	9	8	15	9	20	**71**	10	2
9	Resmed Inc	11	12	14	7.5	5	21	**69**	6	-3
10	James Hardie Industries N.V	13	13	6	7.5	3	25	**69**	14	4
11	Leighton Holdings	14	3	13	7.5	5	26	**68**	7	-4
12	Woolworths	12	1	6	15	7	27	**68**	17	5

Source: GSJBW Research estimates

GSJBW Model Portfolios

Income Portfolio

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

Source: GSJBW Research

Our changes to the Income Portfolio during June 2006:
Reduced: Commonwealth Bank of Australia
Increased: Rio Tinto, Wesfarmers, Westpac Banking Corporation

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

Earnings per Share Growth	5.5%
Price to Earnings Ratio	14.6x
Average Yield	5.4%
Franking	85%

Source: GSJBW Research estimates

Defensive Portfolio

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

Source: GSJBW Research

Our changes to the Defensive Portfolio during June 2006:
Reduced: Commonwealth Bank of Australia, Australian Foundation Investment Company
Increased: Wesfarmers, 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	7.8%
Price to Earnings Ratio	14.6x
Average Yield	4.2%
Franking	86%

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

Source: GSJBW Research

Our changes to the Balanced Portfolio during June 2006:
Reduced: Commonwealth Bank of Australia, Australian Foundation Investment Company
Increased: Wesfarmers, Rinker Group, AXA Asia-Pacific Holdings

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

Earnings per Share Growth	8.3%
Price to Earnings Ratio	15.0x
Average Yield	3.9%
Franking	82%

Source: GSJBW Research estimates

Growth Portfolio

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

Source: GSJBW Research

Our changes to the Growth Portfolio during June 2006:

Reduced: Australian Foundation Investment Company
Increased: ConnectEast, Rinker Group, Aristocrat Leisure

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

Earnings per Share Growth	10.0%
Price to Earnings Ratio	15.4x
Average Yield	3.5%
Franking	84%

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 June

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Macquarie Infrastructure Group	MIG	Marketperform	Underperform	HOLD	-
OneSteel Limited	OST	Not Rated	Outperform	Not Rated	BUY
Transurban Group	TCL	Marketperform	-	HOLD	SELL
Envestra Limited	ENV	Marketperform	Underperform	HOLD	-
Qantas Airways Limited	QAN	Marketperform	Outperform	HOLD	-
Smorgon Steel Group Limited	SSX	Not Rated	Outperform	Not Rated	HOLD
CSR Limited	CSR	Marketperform	Underperform	HOLD	SELL
Babcock & Brown Infrastructure Group	BBI	Not Rated	Marketperform	Not Rated	HOLD
Australian Pipeline Trust	APA	Not Rated	Marketperform	Not Rated	HOLD
GasNet Australia Group	GAS	Not Rated	Outperform	Not Rated	BUY
Ansell Limited	ANN	Underperform	Marketperform	HOLD	-
Commonwealth Bank of Australia	CBA	Underperform	Marketperform	HOLD	-
Zinifex Limited	ZFX	Outperform	-	BUY	HOLD

Source: GSJBW Research

Referred to in Document:

Company Name	Stock Code	Share Price (as at 30 June 2006)	Valuation	Short Term Recommendation	Long Term Recommendation
Australian Foundation Investment Co	AFI	$4.67	$4.76	N/a	BUY
Australian Gas Light Company	AGL	$17.51	$17.95	NR	NR
Australian Infrastructure Fund	AIX	$2.08	$2.43	Marketperform	BUY
Aristocrat Leisure	ALL	$12.88	$15.35	Outperform	BUY
Alesco Corporation	ALS	$9.04	$9.22	Marketperform	BUY
Australand Holdings	ALZ	$2.07	$1.84	Marketperform	BUY
Ansell Healthcare	ANN	$9.67	$9.60	Underperform	HOLD
Australian Pipeline Trust	APA	$4.27	$4.17	NR	NR
Australian Stock Exchange	ASX	$32.58	$27.90	Marketperform	HOLD
Austbrokers Holdings Limited	AUB	$3.15	$3.91	Outperform	BUY
AXA Asia Pacific	AXA	$6.27	$5.95	Marketperform	BUY
Billabong International	BBG	$15.35	$15.40	Outperform	BUY
Babcock & Brown Infrastructure Group	BBI	$1.59	$1.58	NR	NR
BHP Billiton	BHP	$29.00	$24.88	Outperform	BUY
Brambles Industries	BIL	$11.00	$10.80	Outperform	BUY
Bluescope	BSL	$7.95	$8.27	Marketperform	HOLD
Commonwealth Bank of Australia	CBA	$44.41	$41.40	Underperform	HOLD
Coca-Cola Amatil	CCL	$7.09	$7.80	Underperform	HOLD
ConnectEast	CEU	$1.15	$1.41	Marketperform	BUY
Cochlear	COH	$54.63	$51.21	Outperform	BUY
Computershare	CPU	$7.85	$6.60	Marketperform	HOLD
Crane Group	CRG	$12.25	$14.30	Outperform	BUY
CSR	CSR	$3.35	$3.19	Marketperform	HOLD
Fosters Group	FGL	$5.47	$6.30	Marketperform	BUY
GasNet Australia Group	GAS	$2.58	$2.71	NR	NR
Hills Industries	HIL	$4.82	$4.45	Outperform	HOLD
Healthscope	HSP	$3.90	$4.33	Marketperform	HOLD
James Hardie Industries N.V.	JHX	$7.70	$9.82	Marketperform	HOLD
Leighton Holdings	LEI	$17.35	$14.56	Underperform	SELL
Macquarie Airports	MAP	$3.07	$3.38	Marketperform	HOLD
Macquarie Communications Infrastructure Group	MCG	$5.91	$6.70	Outperform	BUY
Macquarie Communications Infrastructure Group	MIG	$3.36	$3.51	Marketperform	HOLD
Mirabooka Investments	MIR	$1.91	$1.91	N/a	Buy
Metcash	MTS	$3.74	$4.81	Outperform	Buy
National Australia Bank	NAB	$35.16	$36.99	Marketperform	BUY
News Corporation Inc.	NWS	$27.20	$27.80	Outperform	BUY
Origin Energy	ORG	$7.36	$7.58	Marketperform	HOLD
OneSteel	OST	$4.07	$4.19	NR	NR
Publishing and Broadcasting	PBL	$18.21	$17.65	Outperform	BUY
Promina Group	PMN	$5.62	$5.65	Marketperform	BUY
Perpetual Trustees Australia	PPT	$73.15	$68.85	Marketperform	HOLD
Qantas Airways	QAN	$2.96	$3.80	Marketperform	HOLD
QBE Insurance Group	QBE	$20.50	$22.20	Outperform	BUY
Ramsay Healthcare	RHC	$9.61	$10.23	Marketperform	HOLD
Rinker Group	RIN	$16.39	$20.56	Outperform	BUY
Rio Tinto	RIO	$77.80	$71.33	Outperform	BUY
Resmed Inc	RMD	$6.20	$6.19	Marketperform	HOLD
Rural Press	RUP	$10.64	$10.60	Marketperform	HOLD
St George Bank	SGB	$29.33	$31.04	Outperform	HOLD
Sonic Healthcare	SHL	$14.20	$14.32	Marketperform	BUY
Smorgon Steel Group	SSX	$1.68	$1.58	NR	NR
Symbion Health	SYB	$3.06	$3.28	Marketperform	BUY
Tabcorp Holdings	TAH	$15.20	$16.70	Underperform	HOLD
Toll Holdings	TOL	$14.05	$14.40	Outperform	BUY
Talent2 International	TWO	$1.30	$1.45	Marketperform	BUY
West Australian Newspapers	WAN	$8.73	$8.50	Outperform	BUY
Westpac Banking Corporation	WBC	$23.28	$22.53	Marketperform	HOLD
Wesfarmers	WES	$35.33	$35.50	Marketperform	HOLD
Woolworths	WOW	$20.15	$19.65	Outperform	BUY
Woodside Petroleum	WPL	$44.00	$31.24	Marketperform	HOLD
Zinifex	ZFX	$10.02	$10.02	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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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.

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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%

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