

Private Wealth Management

Investment Strategy Bulletin

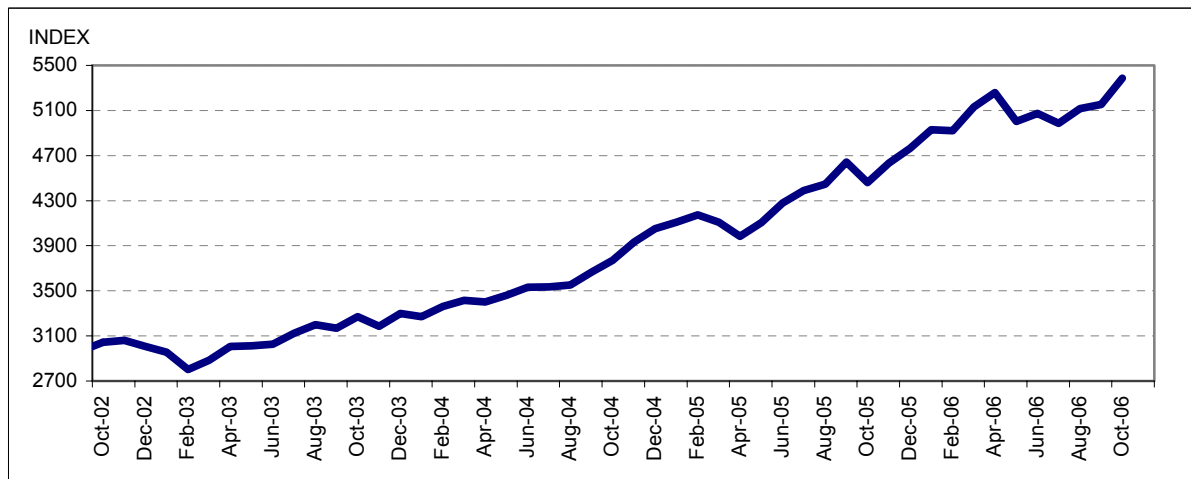
Australian Equities: Portfolio Strategy Review 31 October 2006

- The ASX200 delivered a total return of 4.6% in October, its third consecutive monthly rise. Over the past year, the market has delivered a return of 26.1%. The ASX200 Industrials rose by 4.0% in the month while the ASX200 Resources rose by 6.7% - largely recouping the losses of the previous three months.
- A number of factors have been responsible for the market's recent strength. The lower oil price and expectations of lower US interest rates in 2007 have boosted equity markets around the world. Additionally in Australia, merger and acquisition activity/speculation has been at an unprecedented level resulting in numerous stocks being priced on the basis of potential corporate appeal.
- The majority of industrial stocks in Australia are now fully valued. If the market were to continue to be driven higher without any support from positive earnings surprises, then valuations would move into an expensive range. The September quarter inflation data provided further evidence that the Australian economy is operating at full capacity. We believe the Reserve Bank is likely to lift the cash rate to 6.25% at its next meeting.

Accumulation Index Performance			
	1 Month	6 Month	12 Month
S&P/ASX 200	4.6%	4.7%	26.1%
S&P/ASX 200 Industrials	4.0%	6.9%	24.2%
S&P/ASX 200 Resources	6.7%	-2.9%	34.0%
S&P/ASX Small Ordinaries	6.9%	9.0%	29.6%
Relative Index Performance to S&P/ASX 200			
Consumer Discretionary	1.8%	6.4%	-4.3%
Consumer Staples	-5.3%	5.9%	-6.1%
Energy	-4.3%	-12.5%	-5.4%
Financials	-0.4%	3.4%	1.6%
Health Care	-1.6%	-3.0%	-3.1%
Industrials	-2.0%	3.2%	-3.8%
Information Technology	-3.3%	-5.1%	-9.7%
Materials	4.7%	-7.5%	7.8%
REITs	-3.7%	12.2%	3.0%
Telecommunications	2.1%	-2.7%	-27.0%
Utilities	-4.7%	3.6%	1.9%

Source: GSJBW Research, IRESS

Australian Equity Market Performance: S&P/ASX 200 Index (October 2002 – October 2006)



Source: IRESS

Company Performance: Best and Worst Performing Large-Cap Equities

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

Best	% Change	Worst	% Change
Rinker Group	33.5	AWB	-22.9
Zinifex	29.1	Futuris Corporation	-13.3
John Fairfax Holdings	15.7	Caltex Australia	-7.3
Promina Group	14.7	Amcor	-6.9
West Australian News	14.3	Coles Myer	-5.6
Oxiana	14.1	Santos	-5.4
A.B.C. Learning	12.6	Suncorp-Metway	-5.2
RIO Tinto	11.8	Lihir Gold	-4.8
Bluescope Steel	11.7	Woodside Petroleum	-4.3
Australian Stock Exchange	10.8	Symbion Health	-4.1

Source: IRESS

Significant Company/Economic News

Banks

Analyst: James Freeman

□ ANZ Banking Group (ANZ): Short Term Marketperform; Long Term Hold

Share Price as at 31/10/06: \$29.04; Valuation: \$25.73

ANZ kicked off the major banks' earnings reporting season, posting a net profit after tax for the full year up 16% from the previous year. The bank declared a final dividend of 69 cents, which is up from 59 cents a year earlier and takes the full year dividend to A\$1.25. The result was aided by strong revenue growth and a lower bad debt charge, which fell by 28% due to a reduction in commercial provisions. Management's outlook comments were slightly more bullish than in the past, with ANZ now targeting 7-10% revenue growth compared with 7-9% previously.

Food and Beverage

Analyst: Andrew Gibson

□ Futuris Corporation (FCL): Short Term Underperform; Long Term Hold

Share Price as at 31/10/06: \$1.76; Valuation: \$1.99

Futuris issued a profit warning, indicating that poor seasonal conditions are impacting its merchandise/fertiliser business and livestock/real estate operations. According to the government's commodities forecaster, the severe drought gripping Australia is expected to cut the nation's wheat crop to its lowest level in 12 years and hurt economic growth. The Productivity Commission recently calculated that the last three droughts had each reduced economic growth by 1%. In an effort to help Regional Australia, the Government provided a drought relief of ~\$900m over and above what was already in place.

Utilities

Analyst: Anthony Bishop

□ AGL Energy (AGK): Short Term Marketperform; Long Term Hold

Share Price as at 31/10/06: \$15.35; Valuation: \$15.65

□ Alinta (AAN): Short Term Underperform; Long Term Hold

Share Price as at 31/10/06: \$10.60; Valuation: \$11.63

After final approval was achieved for the AGL Energy (AGK) and Alinta (AAN) Schemes of Arrangement (SOA), a A\$6.5 billion asset swap deal between the two companies came into effect in October. Shareholders implemented two interdependent SOAs whereby: Australian Gas Light Company (AGL) sold its infrastructure assets and Agility business to Alinta, AGL acquired 33% of Alinta's WA Retail and Cogeneration business with the right to acquire the balance over a five-year period, and AGL retained its existing Energy business which is now separately listed as AGL Energy. As a result, shareholders of AGL retained 100% ownership in AGL Energy and a 44% share in the new Alinta after receiving 0.5774 shares for every share they owned in AGL. Alinta shareholders received shares in the new Alinta on a one-for-one basis. The new Alinta and AGL Energy commenced trading on October 11.

Building Materials

Analyst: Matthew McNee

- ❑ **Boral (CLD): Short Term Marketperform; Long Term Hold**
Share Price as at 31/10/06: \$7.27; Valuation: \$7.19
- ❑ **Rinker Group (RIN): Short Term Outperform; Long Term Buy**
Share Price as at 31/10/06: \$18.55; Valuation: \$18.89

At its AGM, Boral announced it expects fiscal 2007 earnings to be 15% lower than fiscal 2006 due to a sharper than expected decline in US housing and continued deterioration in NSW (which together account for ~60% of Boral's earnings). Although the share price came under pressure following the downgrade, it recovered some lost ground when Mexican-based cement company, Cemex, made a cash bid for Rinker at US\$13/share (~A\$17/share). Cemex is RIN's biggest competitor in both the Florida and Arizona concrete markets. Rinker's shares soared amid the market's expectations that Cemex will need to sweeten its \$11.7 billion takeover offer, after both the Rinker Board and its major shareholder rejected the approach as 'opportunistic'. If successful, Cemex's current offer of US\$13 cash per Rinker share would rank as the largest takeover in both Australia and the global building-materials sector. Rinker's share price was up 33% for the month while BLD was relatively flat.

Domestic Media

Analyst: Christian Guerra

- ❑ **Publishing & Broadcasting (PBL): Short Term Outperform; Long Term Buy**
Share Price as at 31/10/06: \$19.38; Valuation: \$19.70
- ❑ **John Fairfax Holdings (FXJ): Short Term Marketperform; Long Term Hold**
Share Price as at 31/10/06: \$4.86; Valuation: \$4.00
- ❑ **West Australian News (WAN): Short Term Outperform; Long Term Hold**
Share Price as at 31/10/06: \$10.37; Valuation: \$9.00

The media sector was in the spotlight this month. PBL announced it will transfer some of its media assets into a new company, PBL Media. The new, unlisted company, owned 50/50 by PBL and private equity group CVC Asia Pacific, will own the Nine Network, the ACP magazines business, ninemsn, and carsales.com.au. PBL's other media assets will remain within PBL. In other news, Seven Network acquired a 14.9% strategic stake in the Perth-based publisher, WAN, and News Corporation secured a 7.5% strategic interest in FXJ. PBL, WAN and FXJ were up 4.0%, 14.3% and 15.2% respectively for the month.

Insurance/Banks

Analyst: Ryan Fisher and James Freeman

- ❑ **Promina Group (PMN): Short Term Not Rated; Long Term Not Rated**
Share Price as at 31/10/06: \$6.80; Valuation: \$5.85
- ❑ **Suncorp-Metway (SUN): Short Term Not Rated; Long Term Not Rated**
Share Price as at 31/10/06: \$20.80; Valuation: \$18.70

SUN made a conditional proposal to the board of PMN to acquire all the shares in PMN (+14.7%) via a scheme of arrangement. The proposal offers 0.2618 SUN shares and \$1.80 cash per PMN share. The cash component will be financed by a combination of excess capital in the combined entity and an entitlements offer to SUN shareholders. SUN and PMN have entered into a Merger Implementation Agreement (MIA), which SUN's management indicated had been structured so that, if a third party makes a takeover offer for SUN, it will still be legally bound to proceed with the Scheme to merge with PMN. SUN ended the month 5.2% lower, as the market took the MIA's binding agreement negatively and weighs the possibility of an ACCC rejection.

Commodities and Resources

Analyst: Malcolm Southwood

Resource stocks generally outperformed the market in October, as commodity prices maintained their strength despite concerns of a slowdown in US economic growth. Commentary from the majority of base metal producers confirmed that demand remains robust, particularly in Asia. During the month most of the resource companies released their production reports for the September quarter. Production levels were largely in line with market expectations, however a notable issue was continued supply disruptions in the copper industry. A general trend emerging from the quarterly reports was that of continuing labour and equipment shortages and rising costs as miners attempt to operate at full capacity over an extended period while undertaking major expansions. The oil price weakened significantly over the month, following a surprise improvement in US inventories. A number of OPEC member nations lowered production levels in response to the falling oil price, contradicting predictions of a lack of spare global capacity.

Australian Equities: Key Issues for Portfolio Strategy

- The prospects for the world economy in 2007 will be determined over the next 3-6 months. The impact of the sharp contraction in housing activity is now hitting the US economy (housing starts have fallen 19% since February). This drag will be at its most material through the December and March quarters. To date, the balance of the US economy (i.e. consumer & business spending) and the balance of the world economy have not shown any material signs of being hurt by this slump. While we still believe the global economy will continue to perform relatively well into 2007 and 2008, there are likely to be times over the next six months where the credibility of this view will be tested. Accordingly, we expect global financial markets will remain exposed to bouts of heightened volatility.
- US long term interest rates peaked in June. Since then global markets have performed strongly on the back of expanding PE multiples. The lower oil price has also assisted the uplift in investor confidence. We remain very comfortable that the basic fundamentals for global equity markets are sound, but performance is likely to be more subdued and volatility more pronounced as investors work through the macro environment described above and tighter liquidity conditions. It is now clear that US interest rates have peaked for this cycle (at 5.25%), but the unfolding slowdown in the global economy will need to clearly quell inflationary pressures for US rates to fall through 2007 – the market’s current expectation. Outside the US, Goldman Sachs Research is looking for further rate increases in Europe and the UK before year-end and further increases in Japan and China through 2007.
- While Australia’s recent economic performance can best be described as mixed, there has been sufficient strength – largely via private sector spending – to sustain the structural imbalances/inflationary risks that have been building over recent years. In particular, capacity constraints appear to be deepening – an issue that will ensure the RBA remains concerned about inflation well into 2007. While the drought will be a material drag on production growth, it will do little to ease the capacity pressures or change households’ incentive to spend or borrow. The social costs of the drought are best addressed via fiscal initiatives (which is occurring), thus it should not be a major factor in the considerations of the RBA. After growth of 2.7% in FY06, GSJBW Research expects production (GDP) to expand by 3.6% in FY07.
- For an economy facing tangible inflationary pressures, the policy stance remains accommodative. The terms of trade are at a 50-year high, the Australian Dollar is tracking sideways, income tax cuts are flowing through, state governments are finally addressing infrastructure shortfalls and asset prices are healthy. The RBA, along with other central banks, has also drawn attention to signs of speculative behavior, notably the rise of leveraged buy-outs and heightened M&A activity, both evidence that interest rates are not an impediment to asset valuations or activity. Thus we believe that further monetary tightening will be required. The cash rate is currently 6.00%. In the event it moves to 6.25% in November, cash will become the highest yielding asset class available to local investors.
- Costs have been increasing on a number of fronts – energy, commodities, compliance, interest expense, imported goods (care of a weaker A\$ and, potentially, price increases from Chinese suppliers). In addition, labour market conditions are tightening. We had feared that cost stress would materialise more broadly during the recent reporting season, but this did not occur in any meaningful way. While this result was positive, we are still not convinced that the majority of industrial stocks will continue to deliver profit margin expansion in the face of a macro environment that suggests it should be difficult. This question is critical because the consensus view (including that of GSJBW Research) is that they will, not only in FY07, but also in FY08 and FY09! Thus, while industrial PE multiples may not look all that demanding (refer table below), the corporate performance underpinning the “E” (as reflected by margins/ROE) is already at all time highs. Can the majority of stocks improve on this stellar performance over coming years? The market is priced on the expectation that they will. We believe ASX200 Industrials is expensive and would be very wary if valuation multiples continue to expand in disregard of rising interest rates & cost pressures.
- Despite the recent price declines in some commodities, the earnings revision risk for the major resource stocks has remained biased to the upside as Chinese demand continues to surge and supply remains tight and subject to disruption. Similar to the September quarter experience, however, macro risks emanating from the softer US economy are likely to periodically unsettle investors over the next 6-12 months. We remain comfortable with the medium term prospects for the sector and would look to build positions in the major stocks when they are trading at a discount to our valuations.
- We are finding it difficult to identify stocks that offer compelling absolute value. Within the large-cap defensive universe **Macquarie Communications Group, Australian Infrastructure** and **ConnectEast Group** remain in the buying range. Other stocks which we are happy to accumulate around current levels are **Woolworths, Brambles, QBE Insurance** and **AGL Energy**. The major banks and the property trusts (REITs) have performed solidly over recent months; valuations now look very full and at risk from higher interest rates. Takeover activity and speculation are at unprecedented levels. The domestic media sector has been at the centre of this action. Valuations, particularly across newspaper stocks, are now expensive. Given that corporate activity and value accretion for shareholders do not always go hand in hand, investors with large positions in **West Australian News, Fairfax** and **Rural Press** may want to lock in some profit while the speculation is most fervent.

GSJBW Market Forecasts:

As at 31/10/2006	Price Earnings Ratio (PER)			Earnings Per Share Growth (%)			Dividend Yield (%)		
	FY06	FY07E	FY08E	FY06	FY07E	FY08E	FY06	FY07E	FY08E
S&P/ASX 300	15.4x	13.6x	13.2x	24.6	14.7	3.4	3.7	3.9	4.1
S&P/ASX 300 Industrials	17.7x	16.4x	15.0x	9.7	8.2	9.2	4.4	4.4	4.8
S&P/ASX 300 Resources	12.1x	9.8x	10.2x	54.8	24.3	-4.2	2.2	2.6	2.7

Source: GSJBW Research estimates

**Domestic Media:
Corporate Activity and Shareholder Value Creation do not Always Go Together**

Over the last eighteen months, the domestic media sector has significantly outperformed the broader Australian equity market. Despite a generally tough environment, M&A activity/rumours have supported the share prices of most domestic media companies, as the market speculates on various scenarios including asset swaps, break ups, takeovers and mergers likely to stem from the prospective changes to the current cross-media and foreign ownership laws. The Government is due to formalise the changes next year. Given the sector outperformance, most media companies now lack valuation support.

Indeed, the domestic media stocks look expensive (refer Table One), particularly compared with the industrial universe – the ASX200 Industrials is trading on a P/E of 16.4x and EV/EBITDA¹ of 9.7x (on our fiscal 2007 estimates). Across the sector, fundamentals are particularly challenging for the newspaper publishers. In our view, the M&A speculation driving the sector represents an opportunity for investors with overweight positions to lock in some profits. There is no guarantee that the speculation will result in actual takeovers, nor is it clear that any such activity or asset swaps, etc. will ultimately be value accretive for shareholders.

On that basis, we are comfortable taking profits in John Fairfax Holdings (FXJ) and West Australian Newspapers (WAN). In FXJ’s case, fundamentals in publishing (~85% of our fiscal 2007 earnings forecasts) remain tough, with trading conditions in NSW and NZ showing no clear signs of a turnaround to date. In our view, upside from corporate activity appears limited at these levels. Regarding WAN, we believe the ability for a potential acquirer to generate high financial benefits/synergies is limited – given WAN is located in WA and other media companies are mostly positioned on the East Coast. In addition, News Corporation and Seven Network have recently acquired a blocking stake in FXJ and WAN respectively (refer page 3).

Table One: Fundamentals of Domestic Media Companies

COMPANY	CODE	DCF	PRICE	PREMIUM/DISCOUNT TO DCF	EV/EBITDA (2007E)	P/E (2007E)
Southern Cross Broadcasting	SBC	\$12.00	\$15.02	25%	10.5	17.2
John Fairfax Holdings	FXJ	\$4.00	\$4.86	22%	11.2	19.7
Ten Network	TEN	\$2.85	\$3.44	21%	13.9	22.3
West Australian Newspapers	WAN	\$9.00	\$10.37	15%	15.0	19.8
Seek	SEK	\$4.40	\$5.32	21%	21.3	30.4
Rural Press	RUP	\$10.40	\$12.19	17%	13.3	21.2
Austar United Communications	AUN	\$1.06	\$1.19	12%	12.0	24.8
Austereo Group	AEO	\$1.95	\$2.24	15%	13.2	19.5
APN News & Media	APN	\$5.85	\$6.12	5%	10.0	17.2
Publishing and Broadcasting	PBL	\$19.70	\$19.38	-2%	16.2	19.7
Seven Network	SEV	\$9.70	\$9.20	-5%	7.3	16.2
Prime Television	PRT	\$3.90	\$3.55	-9%	9.2	15.3

Source: GSJBW Research estimates (at 31 October 2006)

Within the sector, we believe Prime Television (PRT), Seven Network (SEV) and Publishing & Broadcasting (PBL) are relatively cheap. **PBL remains our preferred exposure**, given the potential for its gaming business to continue generating solid growth and our view that the earnings/valuation upside from its ‘investments’ is substantial – we believe investor confidence in the value of ‘Associate earnings’ will only increase (particularly if the Macau JV becomes operational).

¹ EV = Enterprise Value; EBITDA = Earnings Before Interest, Tax, Depreciation and Amortisation

Portfolio Management: Switch Idea**Utilities****Analyst: Anthony Bishop**

- **AGL Energy (AGK): Short Term Marketperform; Long Term Hold**

Share Price as at 31/10/06: \$15.35; Valuation: \$15.65

- **Alinta (AAN): Short Term Underperform; Long Term Hold**

Share Price as at 31/10/06: \$10.60; Valuation: \$11.63

Year End June	2006 Actual		2007 Estimate		2008 Estimate	
	AGK	AAN*	AGK	AAN	AGK	AAN
Net Profit (\$m)	317.1	236.7	312.6	256.8	372.6	307.8
EPS Growth (%)	-24.8	15.9	19.3	8.5	19.1	19.8
PER (x)	22.2	22.0	18.6	20.3	15.6	16.9
Yield (%)	4.4	4.4	3.9	4.7	3.8	4.9

* AAN's 2006 numbers are estimates (December financial year end)

Source: GSJBW Research estimates

We recommend investors switch out of **Alinta** into **AGL Energy**.

Alinta

Following the recent asset transfer with AGL, the profile of Alinta (AAN) has changed with a focus on regulated assets and "strong and consistent earnings growth". To achieve this, Alinta is pursuing an asset consolidation strategy in Australia as well as pursuing new utility assets internationally. We believe that infrastructure and utility asset prices in Australia are currently high and consequently an asset aggregation strategy faces the risk of value destruction. We are also of the view that expansion into new markets exposes the company to new and different challenges, and therefore increases its risk profile.

We believe there are a number of other factors likely to impede Alinta's near term performance. The company now faces increased regulatory risk due to the high proportion of its assets being subject to regulatory reviews. Alinta also faces a number of outstanding regulatory and legal issues involving the company's current stake in Australian Pipeline Trust and its management of the Dampier to Bunbury Pipeline. Additionally, excess supply of Alinta stock following the issue of scrip to AGL shareholders could act to limit near term share price performance. The company's debt levels have risen sharply as a result of the transaction, with interest cover falling to 1.9 times, further increasing its risk profile.

Alinta now has a more stable earnings base given its increased investment in regulated assets and management's demonstrated ability to integrate assets efficiently, in addition to potential for further upside driven by spinning out its regulated assets into a separate vehicle (such as Alinta Infrastructure Holdings). Nevertheless, we believe investors are not being adequately compensated for Alinta's increasing risk profile and recommend clients switch their exposure into AGL Energy.

AGL Energy

The profile of AGL Energy (AGK) has also changed as a result of the transaction and is now a vertically integrated energy company (producer, generator and retailer) with a portfolio of unregulated assets. Given the company no longer has exposure to regulated energy assets, it is less defensive than it previously was.

Based on our estimates, AGL Energy provides strong earnings per share growth relative to the rest of the market, with further upside potential offered by additional cost savings, although these are yet to be quantified by the company. We would look to switch into the stock at current levels.

Longer term, AGL Energy has identified a number of growth opportunities which we have factored into our valuation, including the PNG Gas Project and the development of a number of power generation assets. However a number of other opportunities still exist that are not yet factored in, such as entry into the Queensland and Tasmanian retail markets, which could provide upside to earnings.

Portfolio Management: Emerging Companies**Domino's Pizza Australia New Zealand (DMP)****Analyst: George Batsakis****Investment View: Short Term Marketperform; Long Term Buy**

Share Price as at 31/10/06: \$3.25; Valuation: \$3.85

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Net Profit (\$m)	11.8	9.7	13.4
EPS Growth (%)	31.3	-19.2	33.3
PER (x)	16.8	20.8	15.6
Yield (%)	3.3	3.3	3.7

Source: GSJBW Research estimates

DMP is the largest pizza chain in Australia, with a fast growing presence in New Zealand. It operates both company owned/operated stores (30% of network) and franchise stores (70% of network). The company recently announced that net profit for the first quarter of fiscal 2007 was \$1.2m below budget, due to weaker than expected sales (i.e. new product promotion failed) and lower margin in the Australian business. This surprised the market and saw the share price fall in excess of 18% following the announcement.

Nonetheless, we like DMP's long term story. DMP's low cost structure is attractive and its long term business model is efficient – DMP stores have a relatively limited menu (e.g. single-size pizza) and offer only take away and home delivery services. In addition, the sales productivity is high given good store execution and ongoing product innovation. There is also potential for the immature stores to grow sales and drive long term profit growth and for margins to increase, reflecting the benefit of greater operating efficiencies and scalability of the DMP system (i.e. fixed cost leverage).

DMP acquired Domino's franchise in France/Belgium/Netherlands for \$15m in fiscal 2006. The business has 153 stores (96% franchised) but has the potential to expand to 1,000 outlets in the long term. While this is a risky expansion initiative and we expect the European business to operate at a loss in fiscal 2007 (given expansion and restructuring costs), long term potential is positive. Further, we believe management's expectation of opening 620 stores in Australia/NZ in the longer term (currently 438 stores) is conservative, compared with other fast food stores. Therefore, we retain our long term Buy recommendation on the stock although we acknowledge that short term share price outperformance is unlikely (as management will need to deliver to regain the market's confidence).

Reckon (RKN)**Analyst: Chris Savage****Investment View: Short Term Outperform; Long Term Buy**

Share Price as at 31/10/06: \$1.00; Valuation: \$1.23

Year End June	2006 Actual	2007 Estimate	2008 Estimate
Net Profit (\$m)	8.3	9.5	10.6
EPS Growth (%)	18.0	20.3	9.9
PER (x)	16.9	14.1	12.8
Yield (%)	4.0	4.5	5.0

Source: GSJBW Research estimates

Reckon (RKN) is a software and services business with operations involving the development, distribution and support of personal financial and accounting software. The company holds the rights to distribute the Quicken range of financial software in Australia, New Zealand, Hong Kong, Singapore, Malaysia, Indonesia and the Philippines.

The stock looks cheap relative to our valuation as well as in comparison to the emerging companies sector. We expect strong earnings growth in the near term driven by improving retail sales for Quicken, in addition to improved new business and service sales for the Advanced Professional Solutions (APS) business as it overcomes recent resource constraints. Another positive is that a large percentage of Reckon's revenue is recurring (56% across the whole company), coming from subscriptions in the Quicken business and from annual licence fees and maintenance revenue in the (APS) business.

Our long term Buy recommendation is reflective of the strong earnings growth we believe is achievable for at least the next few years and the likelihood that future earnings will be boosted by bolt-on acquisitions. We are also comfortable with the industry structure given RKN operates in a duopoly in Australia with MYOB, which is likely to continue as both players appear to be behaving rationally.

GSJBW Model Portfolios

Income Portfolio

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

Our changes to the Income Portfolio during October 2006:

Nil

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

Earnings per Share Growth	6.0%
Price to Earnings Ratio	15.1x
Average Yield	4.9%
Franking	91%

Source: GSJBW Research estimates

Defensive Portfolio

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

Our changes to the Defensive Portfolio during October 2006:

Nil

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

Earnings per Share Growth	12.3%
Price to Earnings Ratio	14.2x
Average Yield	3.9%
Franking	85%

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

Our changes to the Balanced Portfolio during October 2006:

Nil

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

Earnings per Share Growth	14.3%
Price to Earnings Ratio	14.4x
Average Yield	3.6%
Franking	80%

Source: GSJBW Research estimates

Growth Portfolio

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

Our changes to the Growth Portfolio during October 2006:

Nil

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

Earnings per Share Growth	16.5%
Price to Earnings Ratio	14.3x
Average Yield	3.3%
Franking	83%

Source: GSJBW Research estimates

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GSJBW Recommendation Changes in October

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Alinta	AAN	Underperform	-	HOLD	-
AGL Energy	AGK	Marketperform	-	HOLD	-
Australian Pipeline Trust	APA	Marketperform	-	HOLD	-
Ballarat Goldfields	BGF	Outperform	Underperform	BUY	HOLD
Bank of Queensland	BOQ	Underperform	Marketperform	-	HOLD
Futuris Corporation	FCL	Underperform	Marketperform	-	HOLD
Flight Centre	FLT	Marketperform	Underperform	HOLD	SELL
Galileo Shopping America	GSA	Marketperform	Underperform	-	HOLD
Just Group	JST	Marketperform	Outperform	HOLD	BUY
Lend Lease	LLC	Underperform	Marketperform	-	HOLD
Macquarie Communications Infrast.	MCG	Marketperform	Outperform	-	BUY
Promina Group	PMN	-	Marketperform	-	HOLD
Seven Network	SEV	Marketperform	Outperform	-	HOLD
Skilled Engineering	SKE	Outperform	-	HOLD	-
Suncorp-Metway	SUN	-	Marketperform	-	SELL
Timbercorp	TIM	Marketperform	Underperform	-	HOLD
Tattersall's	TTS	Underperform	-	HOLD	-
West Australian Newspapers	WAN	-	Outperform	HOLD	BUY

Source: GSJBW Research

GSJBW Initiation of Coverage in October

STOCK	ASX CODE	SHORT-TERM Recommendation		LONG-TERM Recommendation	
		NEW	OLD	NEW	OLD
Caltex Australia	CTX	Underperform	n/a	Hold	n/a
Reckon	RKN	Outperform	n/a	Buy	n/a

Source: GSJBW Research

Referred to in Document:

Company Name	Stock Code	Share Price (as at 31 Oct 2006)	Valuation	Short Term Recommendation	Long Term Recommendation
Alinta	AAN	\$10.60	\$11.63	UP	HOLD
Australian Foundation Invest.	AFI	\$4.95	\$4.72	N/a	BUY
AGL Energy	AGK	\$15.35	\$15.65	MP	HOLD
Australian Infrastructure Fund	AIX	\$2.26	\$2.41	MP	BUY
Aristocrat Leisure	ALL	\$13.93	\$13.45	MP	BUY
Alesco Corporation	ALS	\$9.79	\$9.80	MP	BUY
Australia Pipeline Trust	APA	\$4.60	\$4.29	MP	HOLD
AXA Asia Pacific Holdings	AXA	\$6.66	\$6.55	MP	BUY
Billabong International	BBG	\$15.68	\$15.30	OP	BUY
Brambles Industries	BIL	\$12.48	\$12.15	OP	BUY
Boral	BLD	\$7.27	\$7.19	MP	HOLD
Bank of Queensland	BOQ	\$16.37	\$14.90	UP	HOLD
Commonwealth Bank of Aust.	CBA	\$47.70	\$41.90	UP	HOLD
Coca-Cola Amatil	CCL	\$6.96	\$6.80	UP	HOLD
ConnectEast Group	CEU	\$1.33	\$1.54	MP	BUY
Cochlear	COH	\$55.67	\$54.25	MP	BUY
Computershare	CPU	\$7.70	\$7.40	OP	BUY
Crane Group	CRG	\$12.94	\$14.40	MP	BUY
Caltex Australia	CTX	\$22.15	\$21.25	UP	HOLD
David Jones	DJS	\$3.62	\$3.07	MP	HOLD
Domino's Pizza Australia NZ	DMP	\$3.25	\$3.85	MP	BUY
Futuris Corporation	FCL	\$1.76	\$1.99	UP	HOLD
Foster's Group	FGL	\$6.45	\$6.50	OP	BUY
Flight Centre	FLT	\$16.73	\$12.00	MP	HOLD
John Fairfax Holdings	FXJ	\$4.86	\$4.00	MP	HOLD
Galileo Shopping America	GSA	\$1.22	\$1.18	MP	HOLD
Hills Industries	HIL	\$4.60	\$4.25	MP	HOLD
Healthscope	HSP	\$5.00	\$5.04	MP	BUY
Just Group	JST	\$3.93	\$3.50	MP	HOLD
Lend Lease	LLC	\$16.84	\$13.36	UP	HOLD
Macquarie Communications	MCG	\$6.12	\$6.83	MP	BUY
Macquarie Capital Alliance	MCQ	\$3.45	\$5.13	MP	BUY
Mirrabooka Investments	MIR	\$1.90	\$1.91	N/a	BUY
National Australia Bank	NAB	\$38.18	\$37.89	MP	BUY
News Corporation, Inc	NWS	\$28.35	\$27.80	OP	BUY
Origin Energy	ORG	\$7.17	\$6.85	UP	HOLD
Publishing and Broadcasting	PBL	\$19.38	\$19.70	OP	BUY
Promina Group	PMN	\$6.80	\$5.85	NR	NR
Prime Television	PRT	\$3.55	\$3.90	MP	BUY
QBE Insurance Group	QBE	\$24.70	\$23.80	OP	BUY
Ramsay Healthcare	RHC	\$10.76	\$10.33	MP	BUY
Rinker Group	RIN	\$18.55	\$18.89	OP	BUY
Rio Tinto	RIO	\$78.40	\$77.56	OP	BUY
Reckon	RKN	\$1.00	\$1.23	OP	BUY
Rural Press	RUP	\$12.19	\$10.40	MP	HOLD
Seven Network	SEV	\$9.20	\$9.70	MP	HOLD
St George Bank	SGB	\$32.41	\$31.50	OP	HOLD
Sonic Healthcare	SHL	\$13.15	\$13.84	MP	HOLD
Skilled Engineering	SKE	\$5.83	\$5.20	OP	HOLD
Suncorp-Metway	SUN	\$20.80	\$18.70	NR	NR
Symbion Health	SYB	\$3.28	\$3.41	MP	BUY
Tabcorp Holdings	TAH	\$16.50	\$16.20	UP	HOLD
Timbercorp	TIM	\$2.92	\$3.72	MP	HOLD
Tattersall's	TTS	\$3.64	\$3.20	UP	HOLD
West Australian Newspapers	WAN	\$10.37	\$9.00	OP	HOLD
Westpac Banking Corporation	WBC	\$23.95	\$22.63	MP	HOLD
Wesfarmers	WES	\$34.54	\$34.60	MP	HOLD
Woolworths	WOW	\$20.69	\$20.90	OP	BUY

All valuations and Prices in A\$ unless otherwise stated

Source: IRESS, GSJBW Research

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Short Term

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

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

Long Term

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

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

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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.

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Short Term	Overall	Corporate relationship* in last 12 months	Long Term	Overall	Corporate relationship* in last 12 months
Underperform	13%	12%	Sell	5%	5%
Marketperform	65%	63%	Hold	61%	61%
Outperform	22%	25%	Buy	34%	34%

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