

Private Wealth Management

Model Portfolios: December Performance Update

Investment Strategy | Australia

Against a moderation in market volatility in December the ASX200 fell by 0.28%. The growth portfolio increased in value by 2.90% while the income portfolio lagged, declining by 0.62%. This performance suggests a slow improvement in risk appetite as valuations become increasingly attractive. The major laggard was the resource sector, where uncertain commodity prices and debt continued to sideline investor appetite.

In the growth portfolio we have replaced WPL with STO at a reduced weighting, reflecting STO's smaller market cap. We believe WPL will struggle to convince the market on its production and exploration programme over this year and STO offers good leverage to the oil price, where market expectations for oil price are arguably too bearish on a 12 month view. We have also replaced SGT with JBH to capture domestic spending. BXB has been brought in place of LEI where the risk in earnings due to capital spending is high. And we have modestly upgraded NWS to participate in the US market.

In income we have withdrawn ASX as the stock is relatively expensive compared to market P/E averages and introduced GFF which offers a good yield at a reasonable price. With our recent earnings downgrades in engineering services companies on expectations of lower mining spending, DOW offers a more attractive EPS profile than BKN based on our forward estimates. CTX replaces STO as the yield in the latter does not justify inclusion in an income portfolio. Finally we have reduced our exposure to utilities by removing SKI and adding BBG.

Finally, we have made some adjustments to our stock designations in industrials with respect to 'defensive' and 'cyclical'. These have no impact on performance as they are subjective categories we have chosen.

Growth Portfolio	Weighting in Portfolio	Income Portfolio	Weighting in Portfolio
Resources	23.0%	Resources	19.0%
BHP	14.0%	BHP	14.0%
STO	5.0%	CTX	5.0%
RIO	4.0%		
Financials	34.0%	Financials	26.0%
WBC	9.0%	WBC	9.0%
QBE	6.0%	NAB	8.0%
NAB	8.0%	AMP	5.0%
CPU	3.0%	ANZ	4.0%
AXA	4.0%		
ANZ	4.0%		
Defensive Industrial	15.0%	Defensive Industrial	29.0%
TOL	5.0%	TLS	8.0%
CSL	4.0%	HSP	5.0%
WOW	3.0%	APA	4.0%
JBH	3.0%	CCL	4.0%
		AIX	3.0%
		GFF	3.0%
		SPN	2.0%
Cyclical Industrial	28.0%	Cyclical Industrial	26.0%
WOR	5.0%	WES	6.0%
WES	5.0%	ORI	5.0%
BXB	4.0%	OST	4.0%
UGL	4.0%	WDC	3.0%
NWS	4.0%	DOW	3.0%
NUF	3.0%	BBG	3.0%
BLD	3.0%	CRG	2.0%
Portfolio	100.0%	Portfolio	100.0%

Source: GSJBW Research

Private Wealth Management Investment Strategy

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Market comment

It is with some relief that we close the door on 2008 and focus on the forward year. December was mildly heartening, with tentative signs of stabilisation and more attention to valuation than the rout we have experienced in past months.

This is not to suggest that the economic downturn ahead of us will prove easy to manage, or that there will not be continued risk and volatility in equity markets. But we do believe that investors are starting to appreciate that there is potentially unique value in equities, especially relative to other asset classes. In particular, the sharp reduction in official interest rates is now in meaningful contrast to the estimated grossed up dividend yield on many equities.

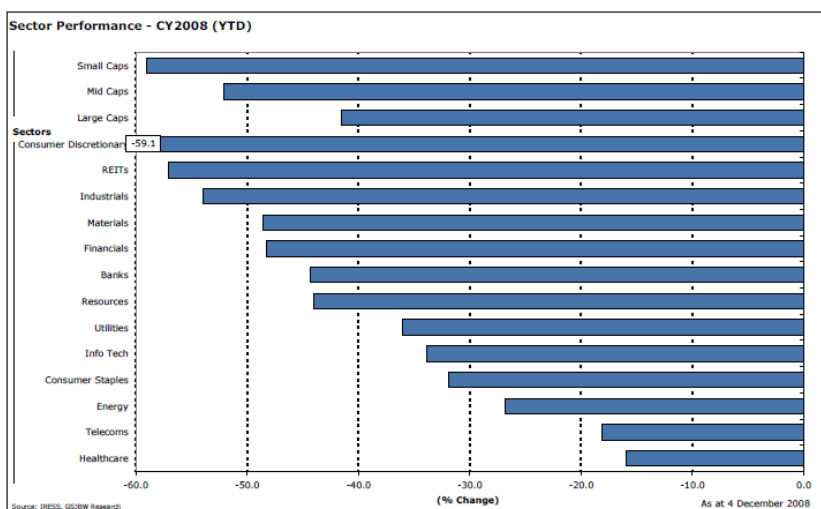
Any recovery however is likely to be patchy. Consumer wealth and spending capacity has been dealt a body blow, credit remains very hard to come by (which will restrain the ability of companies to undertake investment) and governments are treading a fine line in sustaining economic momentum while either utilising surpluses or adding substantially to their debt.

GSJBW forecasts that industrial company profits will fall in FY2009 and the extent of downside could still prove more damaging than expected.

The debate we therefore have is how we can construct our portfolios in these circumstances. As we remind investors, we intend to provide a selection of 20 stocks with a growth and income bias respectively. This means we generally hold large companies and only modest positions in small companies, which would otherwise add substantially to the risk in the portfolio. We do not attempt to manage performance on a short term basis, but rather look for medium to longer term thematic support. We will therefore not trade in or out of a stock purely due to valuation.

In this context we have attempted to balance between defensive stocks that are less likely to experience any earnings erosion and cyclical stocks that can quickly recover their earnings. Defensive stocks (typically healthcare, consumer staples and utilities) have held up relatively well through 2008. However they are now priced at valuations well above the rest of the market and in the event of a sustained equity market performance, they are likely to underperform. Conversely, more cyclical stocks will need to participate in the early part of economic recovery to justify their inclusion in the models and clearly carry risk.

The figure below shows the performance of sub-sectors within the market. Large capitalisation companies outperform smaller companies, more defensive sectors hold up better. Note that due to the modest number of stocks in many sectors, the performance can be affected by a single company. For example, in energy, ORG and AGK dampen the less attractive outcomes elsewhere in the sector. Similarly, WDC which represents nearly half of the Real Estate Investment Trust sector, held up much better than the rest of the sector.



Over the past few months we have slowly introduced more cyclical stocks and in recent times, increased our weighting in those. In our view this provides investors with a balance of risk/return over the medium/long term.

January will be a precursor to the next profit reporting period that will come through in earnest in early February. By now however, many companies have already pre-announced any deviation from market expectations and the figures themselves will reflect history. Of greater consequence will be the 'outlook' comments about current trading conditions and expectations over the second 6 months of the fiscal year. We expect these to be muted, capturing the uncertainty of the period. Once again, the portfolios are intended to balance between greater certainty in outcome, or where negative expectations are priced into the valuation.

Growth portfolio

The best sector contribution to performance in December came from financials as the banking sector clawed back some ground after the equity issues in November. WBC remained the laggard as the market digested the completion of the SGB merger. Banking stocks are balanced between risk of bad debts and supportive yields. From a market point of view, these stocks have, in the past, performed well out of a bear market cycle. This has fundamental support as improved credit facilitation, lending demand and low interest rates signal the commencement of an upturn.

We have retained a more positive stance towards other financials and therefore have QBE, AXA and CPU in the portfolio, each of which we believe has longer term growth potential.

Industrial stocks with a stronger cyclical and valuation bias added to performance in the month as investors tentatively re-invested into the market. The challenge is to balance between more defensive counters to reduce earnings risk, but allow for participation in a market recovery, which would favour value stocks. Further, we do retain an element of thematic overlay in our stock selections.

Our designations of 'defensive' and 'cyclical' have not been entirely correct. WES has proven more cyclical than anticipated due to the sharp change in expectations in coal prices, high debt and lack of visible improvement in the Coles retail businesses. Similarly WOR equity price has moved in line with oil prices rather than the business outlook. On the other hand, NUF is likely to prove more defensive.

On the basis that CSL, WOW, TOL and NUF are relatively defensive stocks we have equally weighted between 'expensive' (that is high P/E) stocks and lower P/E defensives. The cyclical industrials all have some risk, but also considerable upside if momentum improves and economic growth stabilises.

The changes to the portfolio this month are replacing WPL with STO, SGT with JBH, LEI with BXB and modestly increasing our weighting in NWS.

While oil prices have been under pressure, we still believe that the longer term outlook for energy companies is positive. WPL has long held the position as the premier energy play in the Australian market, but with corporate activity and changing structures, we believe other companies, specifically STO, may well prove more productive in the next 12 months.

SGT has the potential to become a leader in telco in Asia, but recent results have been disappointing. JBH is consumer oriented where some risks lie, but, in our view, has shown its ability to manage over the cycle and skew the businesses towards growth areas.

LEI still has a large amount of work on hand and our valuation is attractive. However the market is likely to stand aside from this stock on the basis that mining expenditure will continue to soften, infrastructure spending will be constrained by funding issues and participation in the Middle East clouded. With such uncertainty hanging over the outlook, the stock is unlikely to rally. BXB offers a lower risk exposure to stable consumables through its pallet activity.

Growth portfolio

Table 1: Contribution in December of each stock (including any distributions made during the month) to the overall performance of the portfolio based on the individual weighting of each security.

Growth Portfolio	Contribution (%)	Weighting in Portfolio	Growth Portfolio	Contribution (%)	Weighting in Portfolio
Resources			Defensive Industrial		
BHP	-0.25	14.0%	TOL	0.35	5.0%
RIO	-0.74	4.0%	CSL	-0.12	4.0%
WPL	0.13	7.0%	WOW	-0.01	3.0%
			SGT	0.11	2.0%
Financials			Cyclical Industrial		
WBC	-0.46	9.0%	WOR	0.26	5.0%
NAB	0.35	8.0%	WES	-0.16	5.0%
QBE	0.52	6.0%	LEI	0.55	4.0%
ANZ	0.13	4.0%	UGL	-0.05	4.0%
AXA	0.39	4.0%	NUF	0.45	3.0%
CPU	0.55	3.0%	NWS	0.44	3.0%
			BLD	0.47	3.0%
			Portfolio	2.90	100.0%

Source: GSJBW Research

Growth Portfolio December performance: 2.90%
ASX 200 Accumulation Index December Performance: -0.28%

Income portfolio

The portfolio modestly underperformed the market largely due to a range of weak outcomes in unrelated industrial companies.

Two themes were affected by regulatory outcomes. TLS has been excluded from further participation in the current NBN tender process and has subsequently been punished by the market. SKI and SPN regulated electricity distribution was affected by an unexpected change in potential pricing.

Other selections in cyclical industrials were arguably premature – ORI and OST, however we remain comfortable with their yield and capacity to sustain their dividend at this stage.

BKN has been disappointing and with reduced spending in the mining sector the earnings outlook has deteriorated. We had expected BKN's consumable product bias to be more resilient than now anticipated.

Finally WDC succumbed to the pressures in the REIT sector and even though we had reduced our weighting in the previous month, the remaining holding had a negative impact on performance.

The great debate in equities is the sustainability of dividends and clearly in an income portfolio, this is even more critical. The relatively high yield from the banks reflects both the uncertainty in equity markets overall, but also the perception that there is risk in the dividend. We are not shying away from this possibility, though we believe the banks have shown their desire to retain dividends through the recent capital raisings.

We have made a number of changes to the portfolio. GFF has replaced ASX, which was looking expensive on valuation grounds and with its growth potential pushed out into 2010. We have replaced BKN with DOW, retaining exposure to the engineering thematic but in a company with a better anticipated growth outlook. Our selection in utility companies has been reduced, taking SKI out and introducing BBG. BBG does have consumer risk, but is a high cash flow company and with good longer term growth potential. Finally we have replaced STO with CTX. With the fall in the oil price, STO's dividend is at risk. CTX has been hit but the sharp change in the currency and oil price and we now believe most of that downside is in the price.

Income portfolio

Table 2: Contribution in December of each stock to the overall performance of the income portfolio (including any distributions made during the month) based on the individual weight of each security.

Income Portfolio	Contribution (%)	Weighting in Portfolio	Income Portfolio	Contribution (%)	Weighting in Portfolio
Resources			Defensive Industrial		
BHP	-0.25	14.0%	TLS	-0.45	8.0%
STO	-0.08	5.0%	HSP	0.27	5.0%
			APA	0.44	4.0%
			CCL	0.25	4.0%
			SKI	-0.19	3.0%
			AIX	0.71	3.0%
			SPN	-0.16	2.0%
Financials			Cyclical Industrial		
ASX	0.25	3.0%	WES	-0.19	6.0%
WBC	-0.46	9.0%	ORI	-0.49	5.0%
NAB	0.35	8.0%	OST	-0.17	4.0%
AMP	0.05	5.0%	WDC	-0.41	3.0%
ANZ	0.13	4.0%	BKN	-0.56	3.0%
			CRG	0.34	2.0%
			Portfolio	-0.62	100.0%

Source: GSJBW Research

Income Portfolio December Performance: -0.62%

ASX 200 Accumulation Index December Performance: -0.28%

Historical performance

Cumulative performance to December 2008

	31-Dec-08	Growth	Income	ASX 200 Acc.
1 Month		2.90%	-0.60%	-0.28%
3 Month		-20.09%	-16.97%	-18.27%
6 Month		-30.90%	-23.15%	-26.88%
Since inception		-34.08%	-29.25%	-31.29%

Source: GSJBW Research.

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PORTFOLIO RISK SUMMARY

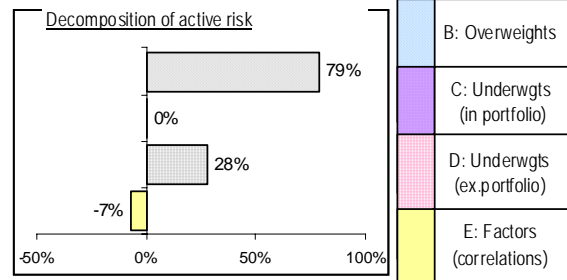
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Benchmark:	ASX200
Date of Data:	31-Dec-08
Timestamp of analysis:	7/01/2009 2:42:38 PM

Data Frequency:	Monthly
No. of Periods:	48
Price or Accumulation:	Accumulation
Factor Analysis:	Multi-Factor

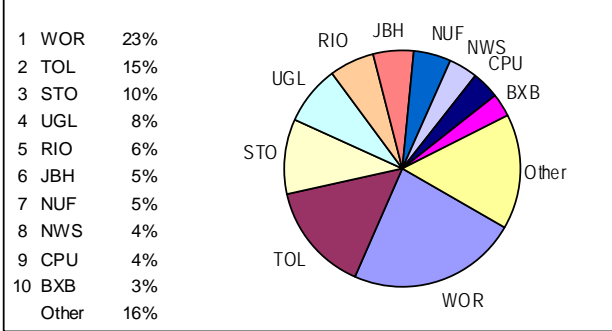
Historic portfolio alpha **10.4%** **Active Exposures:**
 Historic portfolio beta **1.10** Held: 55.3%
 Raw return **9.4%** Total: 108.2%

Forecast Tracking Error	3.84 %	4.10 %
	(residual risk)	(active risk)

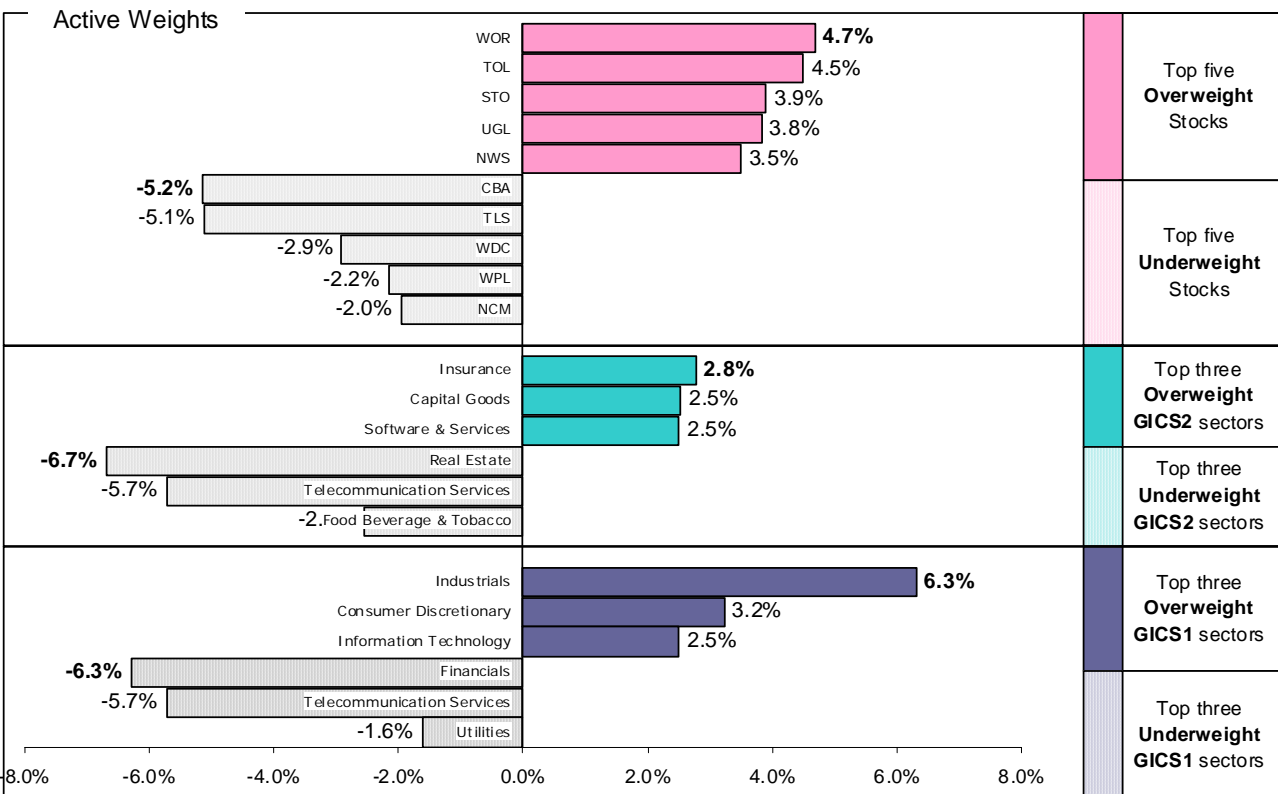
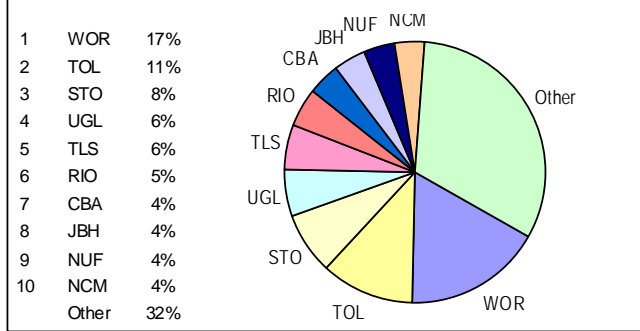
Source of portfolio risk	contribution to active portfolio risk	standard deviation	variance / covar.
A Stocks held in portfolio (B+C)	79%	3.4	11.7
B Overweight positions	79%	3.4	11.6
C Underweight positions	0%	0.2	0.0
D Stocks not held in portfolio	28%	2.0	4.1
E Factors (correlations between stocks)	-7%		(1.0)
F Total (A + D + E)	100%	4.1	14.7
G Systematic risk (undiversifiable)		1.4	2.1
H Active risk definition tracking error (F + G)		4.1	16.8



Top 10 sources of risk: Stocks held in the portfolio (A)



Top 10 sources of risk: All stocks in benchmark (B+C+D)



Source: GSJBW Research estimates

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PORTFOLIO FUNDAMENTALS SUMMARY

See the new right-hand click menu item, when a **data cell** is highlighted

Portfolio Name:	GrowthDec08
Benchmark:	ASX200
Date of Data:	31-Dec-08
Timestamp of analysis:	7/01/2009 2:42:38 PM

FINANCIAL STATISTICS						
	2005	2006	2007	2008	2009	2010
PER	14.6	11.8	10.7	10.8	10.5	9.8
EPS growth		23.9%	10.6%	-1.2%	2.4%	8.0%
PCF	11.7	10.1	9.5	9.6	7.9	7.5
CFPS growth		15.5%	6.8%	-1.0%	20.7%	5.6%
Dividend Yield	3.9%	4.5%	4.8%	5.2%	5.4%	5.6%
DPS Growth		16.4%	6.5%	8.8%	3.9%	3.2%
Franking	90%	89%	87%	86%	82%	81%
P/NTA	3.85	4.08	3.84	3.72	3.05	2.65
Price/Book	2.43	2.09	2.03	1.68	1.55	1.45
Interest Cover	10.97	9.96	7.70	8.36	7.77	9.42
Net Debt/Equity	38%	52%	59%	51%	43%	36%
ROE	18.5%	18.6%	20.0%	16.1%	15.0%	15.1%
ROA	14.0%	13.2%	13.7%	13.1%	12.0%	12.4%
EBIT Multiple*	12.8	9.3	8.5	7.5	7.2	6.6
EBITDA Multiple*	9.7	7.3	6.5	6.0	5.6	5.2

Source: Company data, IRESS, GBJBW Research estimates.

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PORTFOLIO RISK SUMMARY

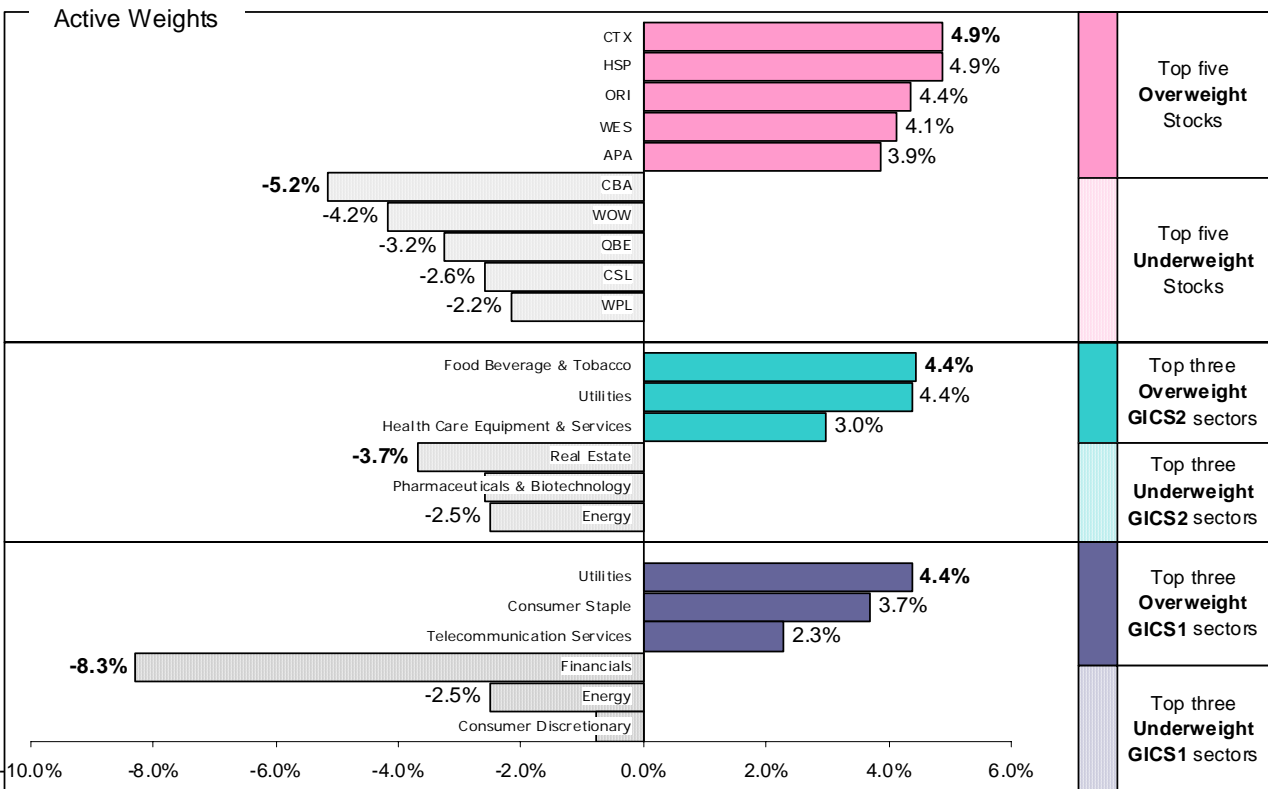
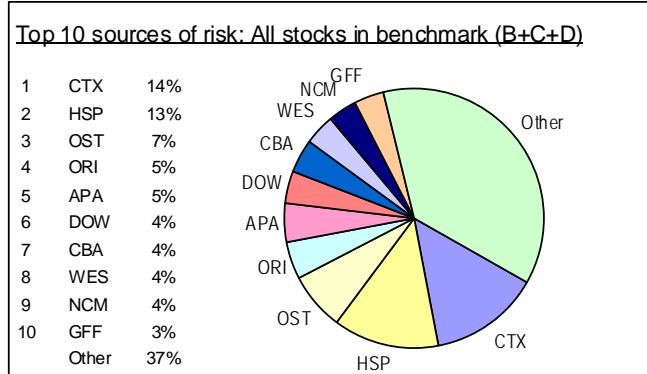
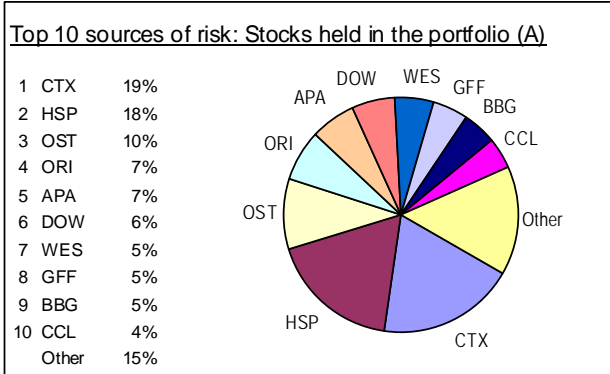
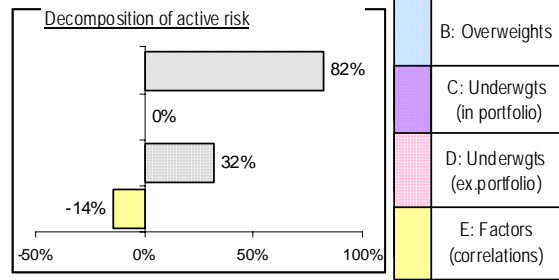
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Benchmark:	ASX200
Date of Data:	31-Dec-08
Timestamp of analysis:	7/01/2009 2:51:51 PM

Data Frequency:	Monthly
No. of Periods:	48
Price or Accumulation:	Accumulation
Factor Analysis:	Multi-Factor

Historic portfolio alpha **3.2%** **Active Exposures:**
 Historic portfolio beta **0.95** Held: 57.8%
 Raw return **2.6%** Total: 115.4%

Forecast Tracking Error	3.94 %	4.00 %
	(residual risk)	(active risk)

Source of portfolio risk	contribution to active portfolio risk	standard deviation	variance / covar.
A Stocks held in portfolio (B+C)	82%	3.6	12.8
B Overweight positions	82%	3.6	12.8
C Underweight positions	0%	0.0	0.0
D Stocks not held in portfolio	32%	2.2	4.9
E Factors (correlations between stocks)	-14%		(2.2)
F Total (A + D + E)	100%	4.0	15.5
G Systematic risk (undiversifiable)		0.7	0.5
H Active risk definition tracking error (F + G)		4.0	16.0



Source: GSJBW Research estimates

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PORTFOLIO FUNDAMENTALS SUMMARY

See the new right-hand click menu item, when a **data cell** is highlighted

Portfolio Name:	IncomeDec08
Benchmark:	ASX200
Date of Data:	31-Dec-08
Timestamp of analysis:	7/01/2009 2:51:51 PM

FINANCIAL STATISTICS						
	2005	2006	2007	2008	2009	2010
PER	11.6	10.3	9.3	10.3	9.6	9.1
EPS growth		12.0%	9.8%	-9.3%	7.8%	5.3%
PCF	8.0	6.9	6.5	7.8	5.7	6.0
CFPS growth		16.9%	5.1%	-15.9%	37.4%	-5.1%
Dividend Yield	5.8%	6.4%	7.2%	7.3%	7.5%	7.8%
DPS Growth		13.1%	12.1%	1.0%	3.4%	3.5%
Franking	85%	84%	79%	78%	81%	80%
P/NTA	2.88	2.54	2.48	2.45	2.24	2.05
Price/Book	1.83	1.68	1.54	1.28	1.26	1.20
Interest Cover	6.27	5.48	5.82	3.96	4.44	4.87
Net Debt/Equity	70%	64%	72%	65%	61%	58%
ROE	17.7%	16.9%	17.0%	12.9%	13.5%	13.6%
ROA	12.9%	11.8%	12.2%	9.4%	11.2%	11.1%
EBIT Multiple*	9.8	9.4	8.2	8.7	7.2	6.9
EBITDA Multiple*	7.6	7.2	6.4	6.5	5.5	5.3

Source: Company data, IRESS, GBJBW Research estimates

STOCK RECOMMENDATION SUMMARY			
		Price (\$A)	Recommendation
Code	Name	6-Jan-09	
AIX	Australian Infrastructure Fund	\$1.71	BUY
AMP	AMP Limited	\$5.44	HOLD
ANZ	Australia and New Zealand Banking Group Limited	\$15.40	HOLD
APA	APA Group	\$3.00	HOLD
ASX	ASX Limited	\$31.92	HOLD
AXA	AXA Asia Pacific Holdings Limited	\$4.89	HOLD
BBG	Billabong International Limited	\$8.60	HOLD
BHP	BHP Billiton Limited	\$31.70	BUY
BKN	Bradken Limited	\$3.23	HOLD
BLD	Boral Limited	\$4.75	BUY
BXB	Brambles Limited	\$7.30	HOLD
CCL	Coca-Cola Amatil Limited	\$9.10	HOLD
CPU	Computershare Limited	\$7.98	BUY
CRG	Crane Group Limited	\$9.63	HOLD
CSL	CSL Limited	\$31.27	HOLD
DOW	Downer EDI Limited	\$4.04	HOLD
GFF	Goodman Fielder Limited	\$1.32	HOLD
HSP	Healthscope Limited	\$4.23	BUY
JBH	JB Hi-Fi Limited	\$9.63	HOLD
LEI	Leighton Holdings Limited	\$25.00	HOLD
NAB	National Australia Bank Limited	\$20.74	BUY
NUF	Nufarm Limited	\$10.16	BUY
NWS	News Corporation	\$14.19	BUY
ORI	Orica Limited	\$15.00	BUY
OST	OneSteel Limited	\$2.50	BUY
QBE	QBE Insurance Group Limited	\$26.00	BUY
RIO	RIO Tinto Limited	\$43.42	HOLD
SGT	Singapore Telecommunications Limited	\$2.49	HOLD
SKI	Spark Infrastructure Group	\$1.22	BUY
SPN	SP AusNet	\$0.91	BUY
STO	Santos Limited	\$15.14	HOLD
TLS	Telstra Corporation Limited	\$3.73	HOLD
TOL	Toll Holdings Limited	\$6.20	HOLD
UGL	United Group Limited	\$8.25	BUY
WBC	Westpac Banking Corporation	\$17.03	HOLD
WDC	Westfield Group	\$13.20	HOLD
WES	Wesfarmers Limited	\$18.38	BUY
WOR	WorleyParsons Limited	\$15.27	HOLD
WOW	Woolworths Limited	\$26.10	HOLD
WPL	Woodside Petroleum Limited	\$38.61	HOLD

Source: IRESS, GBJBW Research,

Disclosure of Interests:

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Compendium Report

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Sell (S)	Stock is expected to underperform the S&P/ASX 200 for 12 months
Hold (H)	Stock is expected to perform in line with the S&P/ASX 200 for 12 months
Buy (B)	Stock is expected to outperform the S&P/ASX 200 for 12 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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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 2 years. Designed to reflect "turnaround stories" or to highlight companies Goldman Sachs JBWere analysts believe will allocate capital poorly in the estimated timeframe.
Earnings Momentum:	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
Catalysts:	A qualitative and quantitative assessment of a company's long term catalysts 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

EVA™ Trend: ¹	ROE is used as a proxy for EVA. Rating takes into account the expected level and trend of ROE over the next 2-3 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

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

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Distribution of Recommendations – as at 31 December 2008

Recommendation	Overall	Corporate relationship* in last 12 months
Sell	15%	12%
Hold	62%	66%
Buy	23%	22%

* No direct linkage with overall distribution as the latter relates to the full Goldman Sachs JBWere stock coverage (>250 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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