Goldman Sachs JBWere

Private Wealth Management

Investment Strategy Bulletin

Australian Equities: Portfolio Strategy Review December 2007

- The Australian equity market declined 2.7% in December, ending the year under pressure, while the total return over the 2007 calendar year was 16.1%. During December investors continued to pursue less risky assets, in particular reducing their exposure to more leveraged equities, as credit concerns placed stocks with near term refinancing commitments under pressure.

- Consistent with the thesis of emerging markets growth, in particular the continued industrialisation of China, investors continued to increase their exposure to stocks most leveraged to this scenario. For 2007, the Resources, Energy and Healthcare sectors outperformed, while the REITs, Utilities and Consumer Discretionary sectors underperformed.

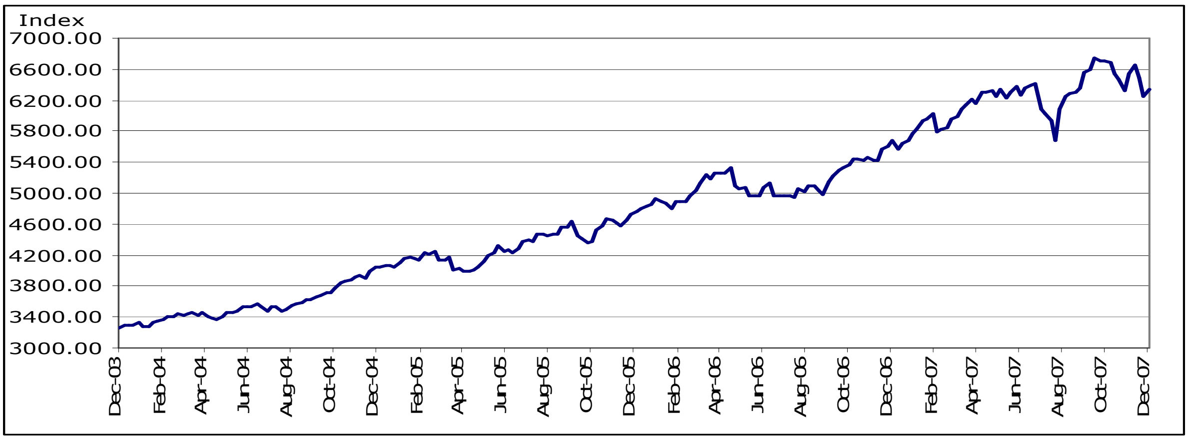
- As we move into 2008, certain risks are unresolved, including the extent of a slowdown in the US economy and China's ability to remain an engine room of growth. While we remain positive on the longer term China growth thematic, we observe that stocks most leveraged to this appear fully priced in the near term. This, coupled with the ongoing risks to the US economy, has shifted our focus to more defensive strategies.

	Accumulation Index Performance		
	1 Month	**6 Months**	**12 Months**
S&P/ASX 200	-2.7%	3.0%	16.1%
S&P/ASX 200 Industrials	-2.4%	-0.7%	8.1%
S&P/ASX 200 Resources	-3.7%	15.0%	47.8%
S&P/ASX Small Ordinaries	-2.4%	-1.5%	17.1%
	Relative Index Performance to S&P/ASX 200		
Consumer Discretionary	2.3%	-6.4%	-14.2%
Consumer Staples	1.4%	7.8%	7.6%
Energy	4.1%	3.7%	15.3%
Financials	-0.8%	-4.9%	-12.0%
Health Care	5.3%	12.7%	10.8%
Industrials	-2.7%	-9.4%	-7.9%
Information Technology	-0.5%	-16.2%	-9.1%
Materials	-1.1%	11.5%	28.5%
REITs	-4.0%	-11.3%	-24.5%
Telecommunications	3.5%	2.9%	5.6%
Utilities	3.1%	-11.9%	-15.2%

Source: GSJBW Research, IRESS

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

December 2003 – December 2007 (Source: IRESS)



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Company Performance: Best and Worst Performing Large-Cap Equities

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

Best	% Change	Worst	% Change
Incitec Pivot	28.7	Centro Properties	-81.6
Orica	13.5	Goodman Group	-20.7
David Jones	10.2	Valad Property Group	-19.4
Downer EDI Limited	8.9	Toll Holdings	-16.5
Australian Stock Exchange	7.2	Macquarie Countrywide	-15.8
Consolidated Media	6.3	Bendigo Bank	-14.7
Babcock & Brown	4.7	Zinifex	-14.1
Oil Search	4.5	St George Bank	-12.6
Mirvac Group	4.3	Caltex	-12.4
CSL Limited	4.2	United Group	-11.6

Source: IRESS

Significant Company/Economic News

Media & Telecommunications **Analysts: Christian Guerra, Adam Alexander**

News Corporation (**NWS**) finished the month flat, outperforming both the local ASX200 index and the US NASDAQ. James Murdoch was appointed Chairman and Chief Executive of Europe and Asia. Following the Publishing & Broadcasting demerger early in the month, Consolidated Media Holdings (**CMJ**) rose as investors saw value in its: 1) Portfolio of assets; 2) Strong earnings outlook; 3) Limited dependency on the ad cycle; and 4) Possible corporate interest. Seven Network **(SEV)** fell after compulsorily acquiring the wireless broadband company, Unwired. Fairfax Media **(FXJ)** declined after announcing the acquisition by Macquarie Media Group of its nine commercial radio licences, while Seek Limited **(SEK)** was stronger.

Retail/Consumer Staples **Analysts: Phillip Kimber, Paul Ryan**

During the month, Billabong **(BBG)** continues to see strong performance in all key markets, however investor concerns relating to a slowdown of the US consumer saw BBG finish the month lower. Harvey Norman (**HVN**) was sold off this month, as it became swept up in credit concerns given HVN offers customers up to 4 years interest free. Woolworths (**WOW**) was flat over the month, despite its quality franchise offering strong defensive earnings in a volatile market. Metcash (**MTS**) finished the month higher after a solid 1H08 result, reconfirming consensus forecasts. Coca-Cola Amatil (**CCL**) rallied strongly early in the month following a positive trading update, while Foster's Group (**FGL**) strengthened as investors sought defensive exposures. Lion Nathan (**LNN**) was also a beneficiary of the increased volatility in the markets thanks to its defensive characteristics.

Gaming **Analyst: Adam Alexander**

Aristocrat (**ALL**) ended the month higher after rising sharply early in the month, while Tabcorp (**TAH**) announced the sale of its interest in the China Keno business to China Lot Synergy. Tattersall's (**TTS**) was broadly flat after announcing the acquisition of the remaining 50% of its European Gaming Group (50/50 JV between TTS and Macquarie Group). Crown (**CWN**) traded lower following its listing early in the month, post the PBL demerger. Shortly after, CWN announced the acquisition of Cannery Casino Resorts.

Energy **Analyst: Anthony Bishop**

Caltex (**CTX**) reduced full year earnings guidance for 2007, which triggered a decline in the stock, while Santos (**STO**) finished the month lower. Oil Search (**OSH**) moved higher over the month, continuing its extensive exploration program, with drilling commencing on new targets in PNG and Egypt. AWE (**AWE**) continued to report strong performance from the Tui oil field in New Zealand, with the field producing its 5-millionth barrel of oil early in December. Exploration in Indonesia was delayed further due to drilling rig issues.

Financials/Insurance **Analysts: James Freeman, Ben Koo, Ryan Fisher**

ANZ (**ANZ**) is now targeting to double its profits in the next 5 years, with a focus on organic growth, while Westpac (**WBC**) completed the listing of its investment management business. The local general insurers Suncorp (**SUN**) and Insurance Australia (**IAG**) were both hurt by large claims losses after hailstorms hit NSW in early December. QBE (**QBE**) finished the year well supported, with investors confident in its earnings outlook and the added bonus of no major hurricanes in this half.

REAL ESTATE INVESTMENT TRUSTS **Analysts: Simon Scott, James Cornell, Peter Zuk**

Centro Properties Group (**CNP**) announced earnings revisions and provided a refinancing update. Increased costs associated with the extension of debt facilities, and the costs of refinancing, are expected to reduce earnings in 2008. Mirvac Group (**MGR**) continued to sell Trust assets, while GPT Group (**GPT**) established its first retail property fund.

Healthcare **Analyst: Robert Gilderdale**

News flow was positive for Resmed (**RMD**) with a favourable decision on home diagnosis and offshore M&A. Domestically, the Healthscope (**HSP**)/Symbion (**SYB**)/Primary (PRY) situation continued to dominate headlines. CSL (**CSL**) strengthened after holding its annual R&D day during the month. Sigma Pharmaceuticals (**SIP**) announced the appointment of Mark Smith as the new CFO effective from January 2008. In addition, it announced the acquisition of Orphan Australia while it was a quiet month for Ramsay (**RHC**) and Sonic Healthcare (**SHL**), both finishing the month broadly flat.

Transportation/Commercials **Analyst: Paul Ryan**

Brambles' (**BXB**) share price remained under pressure after Asciano Group stated that it no longer considered BXB a long-term investment and then began selling down its stake (from 4.09% to 3.44%) late in the month. Toll Holdings (**TOL**) fell on concerns of a softening in domestic aviation yields, ability to create value from acquisitions and a general compression in earnings multiples.

Asciano Group (**AIO**) held its first investor briefing since its demerger from Toll Holdings in June, where management outlined/clarified its strategy (downsizing of rural rail operations, focus on opportunities in core ports/rail businesses with organic growth to be augmented by acquisitions/projects that leverage its management expertise).

Infrastructure/Utilities **Analysts: Jonathon Collett, Kynwynn Strong**

Macquarie Airports (**MAP**) was down this month as the entire infrastructure sector was derated on credit market concerns. Macquarie Infrastructure Group's (**MIG**) share price was very volatile during the month, ending the month lower. ConnectEast (**CEU**) declined after TCL reduced its interest in CEU from 6.28% to 4.92%. TCL's move to reduce its interest in CEU is perhaps designed to take some of the heat out of the rumours *(AFR)* of an imminent bid. Macquarie Communications Group (**MCG**) received provisional regulatory findings from the UK Competition Commission on Arqiva's acquisition of NGW, which were broadly in line with its initial expectations. AGL Energy (**AGL**) continued its post earnings downgrade recovery following a market update, while Origin Energy (**ORG**) recovered from last month's decline on limited news flow as the market continued to reprice risk.

Industrials **Analyst: Matt McNee**

After falling early in the month on negative US housing news, the Boral (**BLD**) share price came under further pressure as Australian housing figures suggested that it may still be some time before a recovery in the NSW housing market occurs. JHX found strength towards the end of the month on little news.

Resources **Analysts: Neil Goodwill, Ian Preston**

The sector remained dominated by merger and acquisitions issues. Meanwhile, macro-economic sentiment has continued to deteriorate, and this has been reflected in the prices of exchange-traded base metals, with the copper price sliding by some 6% during December. Given the current market, both BHP Billiton (**BHP**) and Rio Tinto (**RIO**) lost ground this month. In other metals, despite a weaker copper price, Equinox (**EQN**) was the best-performing base metal stock in December on news that neighbouring copper producer First Quantum Minerals had bought a 7.31% stake in EQN, while Aditya Birla (**ABY**), Zinifex (**ZFX**), Oxiana (**OXR**), Perilya (**PEM**) and Kagara (**KZL**) were among the weaker performers as copper and zinc prices eased. Nickel stocks put in a more mixed performance with Jubilee **(JBM)** still buoyed by the Xstrata takeover bid, while Minara (**MRE**) faired better and Western Areas (**WSA**) failed to keep pace.

Telcos **Analyst: Christian Guerra**

Telstra (**TLS**) was largely unmoved despite investors welcoming the defensive characteristics of the telecommunications sector, while SingTel (**SGT**) strengthened as the IDA announced further detail on its plans for the Next Generation Broadband Network.

Australian Equities: Key Issues for Portfolio Strategy

The word is Risk…
Our understanding and use of the word 'risk' revolves essentially around the probabilities of incurring a loss. From bankers reluctant to lend, mistrusting the value of underlying cash flows and assets, to individual equities which inherently always have operational risks, investors are now increasingly anxious to reduce the chance of a loss rather than just seeking high reward.

Holders of Centro equity have been fully exposed to the crystallisation of this risk in recent weeks. What lessons can be learnt from this?

- Firstly, the business model must work in all cycles. Centro performed very well in a period of ready access to low-cost debt and rising asset prices – clearly not something that was destined to go on for ever.
- Secondly, that reliance on (historical) yield can be misleading. Some observers found comfort in the dividend yield of Centro. While corporations are reluctant to cut dividends, it remains a judgement by the board and should not be expected to be sustained in the face of pressure on cash flow. Indeed some corporations would do better to cut their dividend to retain cash flow rather than subject the organisation to longer term funding strains simply to preserve payouts.
- Thirdly, simplicity and transparency are helpful. Rather belatedly, there has been comment on the complexity of Centro's structure (eg recent AFR, FT articles). Some industries are inherently complex, but if there is no meaningful reason for the structure, or where a complex structure is there to 'add value', investors would be well advised to be cautious.
- Finally, asset valuations are judgments, not statements of fact. In property, capitalisation rates determine the valuation of each property. These are dependent on sufficient comparable transactions to give a benchmark and, since the credit issues internationally, the number of transactions has dried up leaving the market vulnerable to uncertainty.

How can investors translate these issues into their own portfolios?

Note that we are not suggesting that any other corporation is necessarily vulnerable to the same and combined issues as Centro. There are, however, similar but hopefully more benign parallels in other sectors.

For some time we have highlighted the risks in the infrastructure sector. Debt is relatively high, at an average of 53% debt/enterprise value, distribution yields appear high – nearly 7% across the sector – but the income is generally unfranked. Further, none of those we analyse fully covers its distribution through cash flow (after interest costs, tax and maintenance capex) which also does not account for expansionary capex requirements or acquisitions. Many of the stocks in the sector own multiple discrete assets, sometimes partly consolidated. This creates a complex valuation dynamic dependent on assessing each of the components and dealing with currency translations for overseas investments.

In the current fragile market, any hic-up in one of these stocks is likely to cause the whole sector to react, unjustified as that might appear to be.

On a more positive and different note, there are some equities that have performed relatively poorly during 2007 (as can be seen from the table below) but that we believe have reasonable prospects over 2008. In the healthcare sector, which itself is generally immune to most economic cycles and conservatively financed, Resmed and Ramsay Health Care are expected to lift their relative performance this year. Through the year, we are of the view that the negative aspects around Brambles, Caltex, Westfield, and AMP are likely to give way to a more positive tone as these stocks demonstrate market out-performance as the year progresses.

ASX 200 Individual stock moves in 2007

Security	% Rise		Security	% Fall
FMGDA	465.2		CNP	-86.6
SDL	388.6		BOL	-51.3
IPL	241.0		PEM	-49.8
MGX	215.7		CER	-48.8
PNA	214.3		AFG	-48.4
LEI	208.1		CMR	-47.4
MMX	182.1		TIM	-47.2
WOR	149.0		SIP	-43.9
QGC	146.6		EHL	-39.6
JBH	139.8		ABS	-36.3
SMY	135.8		MDT	-34.3
CSM	133.3		GMG	-31.3
IGO	127.8		IAG	-30.5
AOE	117.6		JHX	-29.6
MCR	100.5		PPX	-29.5
FLT	96.6		TSO	-27.9
MAH	92.1		GTP	-27.7
SRL	89.2		ILU	-27.5
RIO	82.2		BJT	-27.1
HVN	81.8		ZFX	-26.5
MCC	81.8		ALL	-26.2
LYC	75.0		PDN	-23.7
CEY	74.2		SGN	-23.6
CSL	68.5		GPT	-22.7
ASX	62.9		IFL	-21.1
BHP	61.0		DOW	-20.0
MND	53.7		AGK	-15.5
JBM	48.2		BLD	-15.3
OSH	47.7		MCW	-14.4
STO	47.1		NWS	-14.2
TSE	46.6		CSR	-13.3
WOW	45.3		AED	-12.9
AQP	40.9		TEN	-12.5
UGL	40.8		BBG	-11.9
NUF	40.0		CTX	-11.7
AUN	39.9		PPT	-10.7
SGM	38.7		KZL	-9.7
SEK	38.4		BXB	-8.8
DJS	37.4		SUN	-8.8
WSA	36.9		ENV	-8.7
NCM	36.3		APA	-8.6
WPL	35.5		GFF	-8.6
OST	35.4		APN	-7.8
ORI	34.3		VPG	-7.5
CRG	33.8		AEZ	-7.3
NXS	32.1		TAL	-6.8
COH	31.3		MCG	-6.8
ABC	31.0		CIY	-6.7
JST	30.9		TAH	-6.7
PBG	30.8		MIG	-6.6

ASX 200 Individual stock moves in 2007 (continued)

IVC	29.7		BBI	-6.0
WTF	28.8		SPT	-6.0
TLSCA	28.3		RMD	-6.0
SDG	28.1		MMG	-5.9
GNS	27.7		ERA	-5.7
ABB	26.9		ALS	-4.9
CCL	26.5		SGX	-4.7
LGL	25.6		DXL	-3.9
ALZ	24.8		TCL	-2.9
CBA	24.6		TEL	-2.9
CGF	24.2		MTS	-2.7
SGT	22.9		AWB	-2.2
LNN	22.7		LLC	-2.0
MAP	21.2		NAB	-1.9
AIX	20.7		ROC	-1.9
WBC	20.6		FGL	-1.9
TLS	20.0		MOF	-1.8
QBE	19.4		SPN	-1.1
GUD	19.3		MQG	-1.0
DRT	19.2		RHC	-0.9
BOQ	18.8		GWT	-0.4
MRE	18.5		BCM	-0.2
BSL	17.4		AIO	
CAB	17.3		BLY	
IRE	17.2		CWN	
CEU	16.1		CXC	
SEV	15.8		SKI	
SHL	15.5		TSI	
IIF	14.6		AMC	
BWP	14.4		HIL	0.2
FCL	14.0		HGI	0.5
WES	13.9		SGB	0.8
IOF	13.6		FXJ	1.0
MGR	13.1		FKP	1.4
CPU	12.9		ANZ	2.1
OXR	12.6		PMP	2.5
WAN	12.5		MFS	2.6
TOL	12.1		BKN	2.8
BBP	12.0		BPT	3.2
XJO	11.8		AUW	3.7
CPA	11.5		HSP	3.8
BNB	11.2		AXA	4.0
TPI	10.5		AWC	4.2
DUE	10.4		WDC	5.4
QAN	10.2		CFX	5.5
BEN	10.1		CMJ	6.1
AWE	9.8		BBW	6.6
ORG	9.6		AMP	6.7
ANN	9.4		SYB	7.1
CXP	9.3		SGP	7.1
TTS	7.6		HDF	7.1
HDF	7.2		TTS	7.6

Source: IRESS

Chemicals Sector Update

While some are waiting for the big bang, have others had their run?

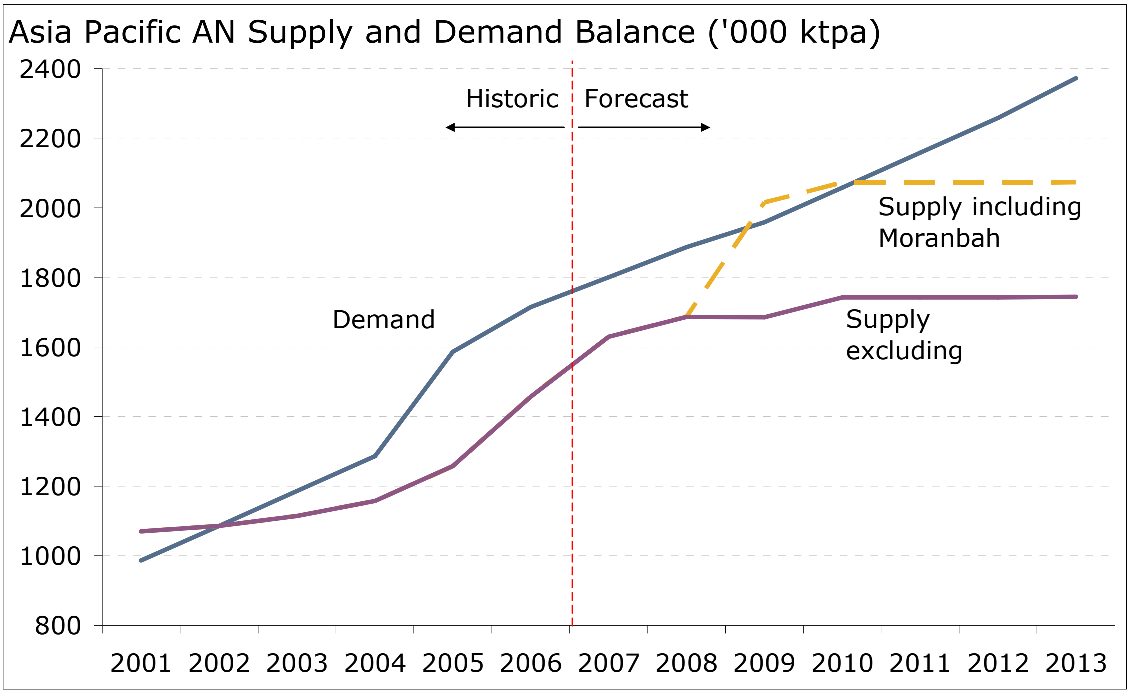
There have been some developments in the chemicals sector over the past month that warrant closer inspection. These events includes Dyno Nobel's (DXL) announcement of an indefinite suspension of its Moranbah Ammonia Nitrate project and the subsequent opportunities this presents to Orica (ORI). In this article, we will focus the relationship between costs of production versus economic feasibility for Dyno Nobel (DXL) and Orica (ORI).

Another situation of note is the continued positive run in the Incitec Pivot share price, on the back of higher fertiliser prices and the worldwide shortage of soft commodities

Dyno Nobel: its loss is Orica's gain?

DXL's recent suspension of the Moranbah Ammonium Nitrate project illustrates the trade-off between increasing project costs, the economic benefits of in-house Ammonium Nitrate (AN) production, and global supply/demand metrics. With the revised cost estimates of the Moranbah project coming in above the company's initial estimates, and the domestic AN market due to go into oversupply by 2010 (one year after the proposed commissioning of the Moranbah plant), the economic feasibility of Moranbah clearly comes into question. This could only have been further exacerbated by ORI's plans to build a significant production facility in Indonesia, thus removing the ability to export surplus product into the Indonesian market. Prima facie, theses combined risk factors support the case for ceasing the Moranbah project, inevitably leaving a question mark over how the company will fulfil its contractual obligations to supply product to third party customers.

The suspension of Moranbah ultimately leaves ORI as the logical beneficiary of domestic Ammonium Nitrate (AN) demand, especially given DXL will need to source product in order to satisfy its existing supply agreements. DXL's decision also removes the oversupply situation foreshadowed above, and as such we would expect the market to be broadly in balance by 2010. On a regional-supply basis, the suspension of Moranbah is likely to maintain the tight Asia Pacific market for AN, as illustrated in the chart below:

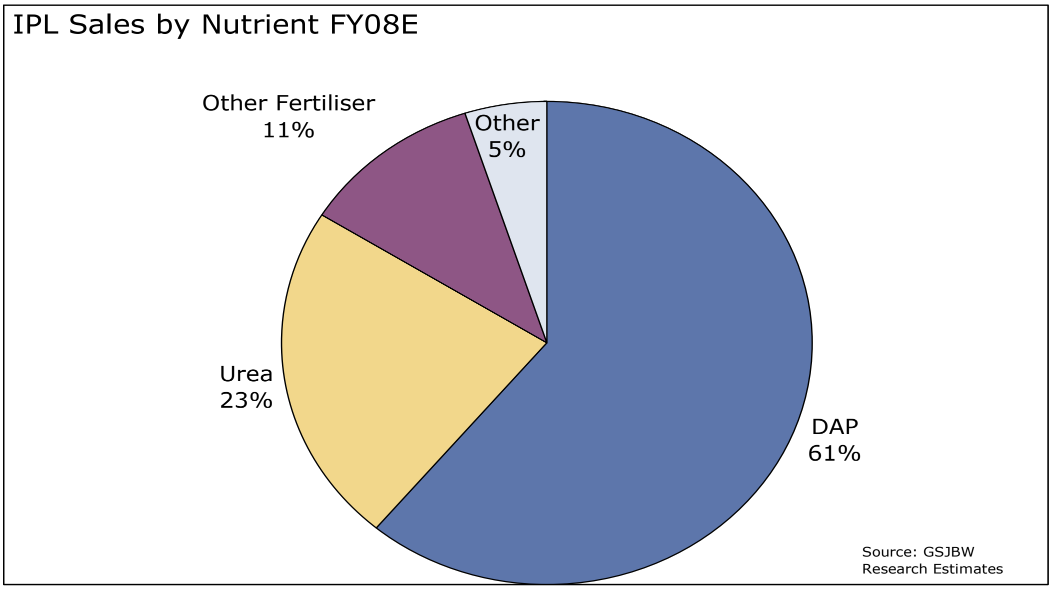


Source: DXL, GSJBW Research estimates

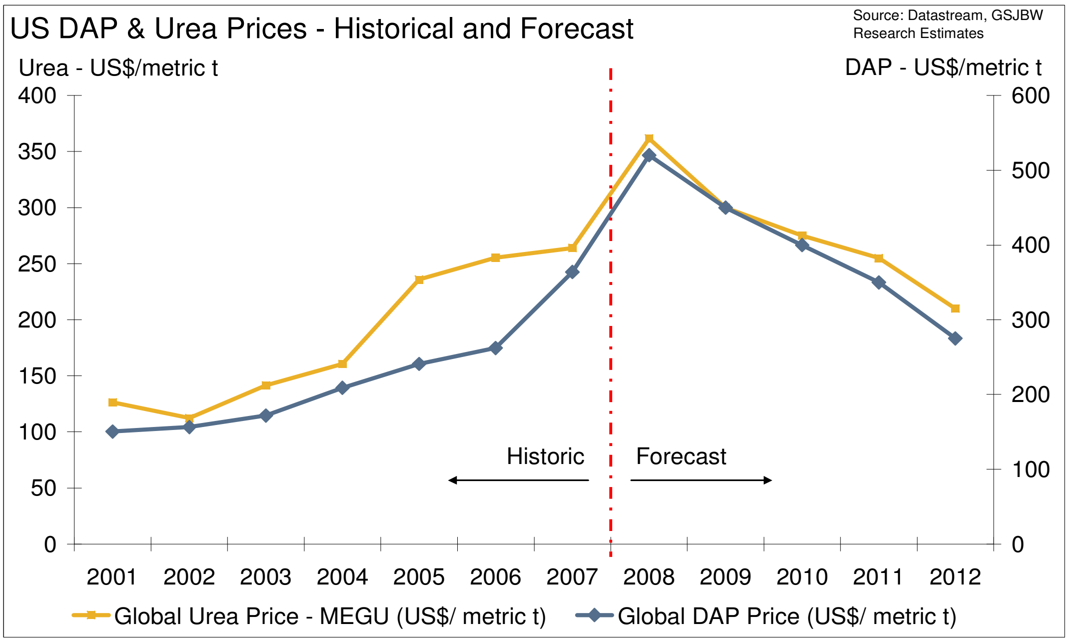
With the 'stronger for longer' resources theme set to continue on the back of sustained growth in emerging Asian markets, Orica's fortunes seem likely to improve going into 2008, as the mining sector continues to increase its capacity, with ORI the beneficiary of increased demand for its explosive products. As outlined in the financial summary table (at the back of the article), we forecast upside to earnings for Orica of 3.7% in fiscal year 2009, and 6.3% in 2010. We struggle to see support for the DXL share price following the suspension of Moranbah, and would recommend investors increase exposure to ORI.

Incitec Pivot: Where to from here?

Incitec Pivot (IPL) shares have performed very strongly over the past twelve months, achieving a total shareholder return of 234% over 2007 (source: IRESS). The key driver of the IPL share price has been the strong prices received for Diammonium Phosphate (DAP) and Urea on international markets. These two chemicals make up a significant proportion of IPL's revenues as illustrated in the chart below:



These prices bode well for IPL in the near term, however, as the chart below suggests, high prices for DAP and Urea may not always be the case, and we forecast that these prices will revert to the previous historical average going into 2008, as we see additional capacity from other markets, especially the Middle East:



To date the momentum in fertiliser prices has been relentlessly upward, tracking the major input cost - gas – and increasing demand for grain-based soft commodities. We believe this cycle will turn, though clearly predicting such timing is problematic. At that point, IPL somewhat lacks a catalyst to drive the share price further.

With the company having acquired a 13% stake in DXL, attention may focus on what the company intends to achieve with its investment. However, with DXL yet to secure alternative supply arrangements for its obligations to Moranbah customers, we believe it is extremely difficult for IPL to adequately value DXL.

In the medium term, a further initiative has to support the IPL share price other than record global fertiliser prices. With the domestic market having been suppressed by drought and extreme weather, a turnaround in Australian agricultural production could compensate for a moderation in prices through increasing demand.

With the stock currently trading at a price-earnings multiple of 22x 2008 earnings, further positive price momentum would require either sustained higher product prices or much higher demand than we currently forecast. The group is generating useful cash flow and could increase its dividend payout, though acquisition or expansion may be as likely. Investors worldwide are, however, very keen to follow the soft-commodities thematic and IPL is likely to retain support while this remains in place.

Chemicals Sector: Financial Summary Table

Stock	Recommendation	Dividend Yield		EPS Growth		PE Ratio	
		(FY08E)	(FY09E)	(FY08E)	(FY09E)	(FY08E)	(FY09E)
DXL	HOLD	3.6%	4.0%	4.2%	32.9%	15x	11.3x
IPL	HOLD	3.6%	3.3%	53.4%	-8.4%	19.6x	21.4x
ORI	BUY	3.3%	3.7%	14.0%	12.6%	17.2x	15.3x

Source: GSJBW Research estimates

Airline Sector

Smooth sailing or turbulence

In the holiday season many investors will have made use of the assets of Qantas, Virgin Blue and Macquarie Airports. Given our cautionary stance on world growth, airlines and airports may not seem to be the best place to invest in the near term. However there are specific factors that can override the macro concerns.

While the strong A$ has helped mitigate some of the impact of rising fuel prices, Qantas(QAN) has also benefited from a robust demand/supply-constrained environment (see the table below which shows QAN's earnings sensitivities). QAN has hedged 79% of its FY08 fuel requirements. Its two brand strategy, through Qantas maximising its yield and Jetstar minimising cost, has reinforced the group's competitive position.

Table 1: QAN Sensitivities: Revenue versus Costs

QANTAS AIRWAYS - EARNINGS SENSITIVITIES

			FY08 NPAT		FY09 NPAT	
Size of Move	in	Metric	$m	%	$m	%
1¢	increase in	AUD/USD spot rate	11	1.0%	28	2.5%
US$1	increase in	Sing Jet Fuel spot price	(6)	(0.6%)	(24)	(2.1%)
10bp	increase in	Load Factor	11	1.1%	13	1.2%
1%	increase in	Passenger Yield	88	8.3%	99	8.9%
1%	increase in	Unit Revenues	111	10.4%	121	10.9%
1%	increase in	Unit Costs	(109)	(10.2%)	(122)	(11.0%)

Source: GSJBW Research estimates

The stock gained support post the unsuccessful corporate transaction and has rewarded investors with profit upgrades. The investment thesis is now well embedded but we expect further upside on the back of value realisation from the spin-off of its non-flying businesses (eg. Frequent Flyer, freight).

The main risks to the outlook are its ability to continue to manage costs including the potential imposition of a carbon offset charge such as that mooted in Europe. The competitive landscape in Australia remains fluid, with a new entrant in the domestic market and plans for increased capacity by existing participants. Heightened competition on the lucrative Pacific route presents another risk.

In difficult equity markets the high beta of 1.35 may challenge performance, but the offset of a low P/E – 9.9 times FY08, good franked yield – 6.6% FY08 and on-market buyback will provide some support.

The other pure-play airline stock is Virgin Blue (VBA). Our current 2008 EPS growth forecasts are low on the basis that VBA is more exposed to increased domestic competition, has less fuel hedging in place than QAN and will incur some long-haul start-up losses).

Meanwhile, the market continues to debate Toll Holdings' (TOL) intentions with regard to its majority stake in the airline. Until there is greater certainty regarding TOL's strategy in relation to VBA, the stock may continue to move sideways while QAN continues to win favour.

Another means for investors to participate in the sector is via Macquarie Airports (MAP). MAP has developed a portfolio of attractive airport assets, with the three key airport investments being Sydney, Brussels and Copenhagen. The current outlook for passenger growth at most of MAP's airports is very encouraging given the additional airline capacity entering the market over the next few years, particularly at Sydney Airport via Qantas.

MAP also has a substantial cash balance (over $1bn) with which it can either make further airport acquisitions or undertake some form of capital management eg share buyback. Given MAP's strong investment track record and the increasing volatility in asset prices, we believe that an attractive airport investment opportunity could emerge, particularly in the listed airport sector (eg Vienna Airport). However if no acquisitions are made before its result in late February, then we'd expect MAP to at least embark on some form of capital management.

Whilst negative sentiment over tightening credit markets may continue to weigh on MAP given its level of gearing, in reality it is unlikely to have any material impact on the fund given its interest rate exposure on existing debt is largely hedged for at least the next 5 years, and it does not have any significant refinancings due until 2009. Furthermore, the quality of its portfolio suggests that lenders will remain comfortable refinancing the debt within MAP's assets, albeit at perhaps slightly higher margins. Hence we view this recent price weakness as an excellent buying opportunity.

. GSJBW Model Portfolios

Income Portfolio – (Inception Date: 2002)

Westpac Banking Corporation	Woolworths
National Australia Bank	Metcash
Macquarie Communications Infrastructure Group	Qantas
BHP Billiton	QBE
Wesfarmers	Spark Infrastructure
ANZ Bank	Ramsay Healthcare
Coca-Cola Amatil	Fairfax Media
Tattersalls	Telstra
Suncorp-Metway	Crane Group
Australian Infrastructure Fund	Hills Industries
Foster’s Group	Boral

Changes to the Income Portfolio during December 2007:
Reduced: NAB, TTS and CCL
Increased: ANZ, TLS
Switched: AMP into QBE

Income Portfolio Summary: Fiscal 2008 (*Please note MCG is excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	2.4%
Price to Earnings Ratio	17.9x
Average Yield	4.8%
Franking	79%

Source: GSJBW Research estimates

Balanced Portfolio – (Inception Date: October 2002)

BHP Billiton	Suncorp-Metway
Macquarie Communications Infrastructure Group	Toll Holdings
National Australia Bank	Telstra
Woolworths	Computershare
Westpac Banking	Woodside Petroleum
Rio Tinto	ANZ Bank
Brambles	Origin Energy
Ramsay Healthcare	AXA Asia-Pacific Holdings
Wesfarmers	Billabong International
News Corporation, Inc.	United Group
QBE Insurance Group	Singapore Telecom
Crown Gaming	

Changes to the Balanced Portfolio during December 2007:
Increased: TLS
Reduced: NAB
Switched: PBL into CWN, TSE into UGL

Balanced Portfolio Summary: Fiscal 2008 (Please note MCG is excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	1.9%
Price to Earnings Ratio	18.5x
Average Yield	3.4%
Franking	73%

Source: GSJBW Research estimates

Growth Portfolio – (Inception Date: October 2002)

BHP Billiton	AXA Asia-Pacific Holdings
ANZ Bank	Computershare
Brambles	Healthscope
Woolworths	QBE Insurance Group
Rio Tinto	Suncorp-Metway
Westpac Banking	Newcrest Mining
News Corporation, Inc.	Billabong International
Ramsay Healthcare	Origin Energy
Resmed	Singapore Telecom
Woodside Petroleum	Sonic Healthcare
Crown Gaming	United Group
Toll Holdings	

Changes to the Growth Portfolio during December 2007:
Increased: WBC, QBE, UGL, ORG, AXA
Removed: JHX, NAB
Switched: PBL into CWN

Growth Portfolio Summary: Fiscal 2008 (*Please note AAN and CEU are excluded from the calculation of the EPS growth rate and PER)

Earnings per Share Growth	4.8%
Price to Earnings Ratio	18x
Average Yield	2.8%
Franking	76%

Source: GSJBW Research estimates

All figures or amounts stated in the table above are an estimate only and are provided by way of illustration.
Actual figures or amounts may vary from those figures or amounts

GSJBW Recommendation Changes in December

STOCK	ASX CODE	New Recommendation	Old Recommendation
Flight Centre	FLT	**SELL**	**HOLD**
Coca Cola Amatil	CCL	**HOLD**	**BUY**
Orica	ORI	**BUY**	**HOLD**
CSR	CSR	**HOLD**	**SELL**
Perilya	PEM	**HOLD**	**BUY**
Billabong Group	BBG	**HOLD**	**BUY**
ING Industrial Fund	IIF	**SELL**	**HOLD**
Macquarie DDR Trust	MDT	**HOLD**	**BUY**
Stockland	SGP	**SELL**	**HOLD**
Paladin Energy	PDN	**HOLD**	**SELL**

Source: GSJBW Research

GSJBW Initiation of Coverage in December

STOCK	ASX CODE	New Recommendation	Old Recommendation
Crown Gaming	CWN	**HOLD**	
Consolidated Media Holdings	CMJ	**HOLD**	

Source: GSJBW Research

Referred to in Document:

STOCK RECOMMENDATION SUMMARY

Code	Name	Price ($A) 31-Dec-07	12 Month Price Target (A$)	Recommendation
ABC	Adelaide Brighton Limited	$3.48	$3.50	HOLD
ABY	Aditya Birla Minerals Limited	$2.27	$4.64	BUY
ADB	Adelaide Bank Limited	$15.58	$4.64	BUY
AGK	AGL Energy Limited	$13.32	$13.00	HOLD
AIO	Asciano Group	$7.00	$7.67	HOLD
AIX	Australian Infrastructure Fund	$3.10	$3.30	HOLD
ALL	Aristocrat Leisure Limited	$11.25	$13.66	HOLD
AMP	AMP Limited	$9.95	$10.95	HOLD
ANZ	Australia and New Zealand Banking Group Limi	$27.46	$31.86	BUY
AWE	Australian Worldwide Exploration Limited	$3.35	$3.30	HOLD
AXA	AXA Asia Pacific Holdings Limited	$7.38	$8.80	BUY
BBG	Billabong International Limited	$14.82	$16.43	HOLD
BBI	Babcock & Brown Infrastructure Group	$1.60	$1.67	HOLD
BEN	Bendigo Bank Limited	$14.76	$13.91	HOLD
BHP	BHP Billiton Limited	$40.14	NA	NR
BLD	Boral Limited	$6.12	$7.62	HOLD
BXB	Brambles Limited	$11.53	$13.64	HOLD
CCL	Coca-Cola Amatil Limited	$9.48	$10.52	HOLD
CGJ	Coles Group Limited	$77.96	$5.60	HOLD
CMJ	Consolidated Media Holdings Limited	$4.20	$3.83	HOLD
CNP	Centro Properties Group	$1.01	$2.43	HOLD
COH	Cochlear Limited	$74.90	$72.41	HOLD
CPU	Computershare Limited	$9.88	$11.30	BUY
CRG	Crane Group Limited	$17.12	$22.00	BUY
CSR	CSR Limited	$3.10	$3.27	SELL
CTX	Caltex Australia Limited	$19.37	$22.50	HOLD
CWN	Crown Limited	$13.45	$15.25	HOLD
DJS	David Jones Limited	$5.51	$5.16	HOLD
DXL	Dyno Nobel Limited	$2.23	$2.40	HOLD
DXL	Dyno Nobel Limited	$2.23	$2.40	HOLD
FGL	Foster's Group Limited	$6.55	$6.75	HOLD
FXJ	Fairfax Media Limited	$4.68	$5.25	HOLD
GMG	Goodman Group	$4.89	$6.76	HOLD
HIL	Hills Industries Limited	$5.36	$5.90	HOLD
HSP	Healthscope Limited	$5.42	NA	NR
HVN	Harvey Norman Holdings Limited	$6.80	$6.58	HOLD
IAG	Insurance Australia Group Limited	$4.12	$4.20	HOLD
IPL	Incitec Pivot Limited	$117.10	$92.38	HOLD
JBM	Jubilee Mines NL	$22.68	$23.00	HOLD
JHX	James Hardie Industries N.V.	$6.45	$6.93	HOLD
KZL	Kagara Ltd	$6.20	$6.70	BUY
LEI	Leighton Holdings Limited	$61.20	$42.80	SELL

STOCK RECOMMENDATION SUMMARY (continued)

Code	Name	Price ($A) 31-Dec-07	12 Month Price Target (A$)	Recommendation
LNN	Lion Nathan Limited	$9.61	$9.92	HOLD
MAP	Macquarie Airports	$4.05	$4.91	BUY
MQG	Macquarie Group Limited	$76.20	$84.98	HOLD
MCG	Macquarie Communications Infrastructure Grou	$5.43	$7.08	BUY
MCW	Macquarie Countrywide Trust	$1.65	$2.19	BUY
MGR	Mirvac Group	$6.00	$5.47	SELL
MRE	Minara Resources Limited	$6.23	$6.30	HOLD
MTS	Metcash Limited	$4.35	$4.97	BUY
NAB	National Australia Bank Limited	$37.79	$43.99	HOLD
NCM	Newcrest Mining Limited	$33.10	$37.50	BUY
NWS	News Corporation	$24.30	$31.49	BUY
ORG	Origin Energy Limited	$8.85	$9.60	HOLD
ORI	Orica Limited	$31.75	$33.20	BUY
OSH	Oil Search Limited	$4.85	$4.80	HOLD
OXR	Oxiana Limited	$3.48	$5.00	BUY
PDN	Paladin Energy Ltd	$6.79	$7.27	HOLD
PEM	Perilya Limited	$2.64	$3.25	HOLD
PPX	PaperlinX Limited	$2.66	$2.97	HOLD
QAN	Qantas Airways Limited	$5.44	$7.00	BUY
QBE	QBE Insurance Group Limited	$33.34	$37.60	BUY
RHC	Ramsay Health Care Limited	$10.95	$12.10	HOLD
RIO	RIO Tinto Limited	$133.95	NA	NR
SBC	Southern Cross Broadcasting (Australia) Limite	$4.36	$4.10	BUY
SEK	Seek Limited	$8.00	$9.45	BUY
SEV	Seven Network Limited	$12.83	$12.60	HOLD
SGB	St George Bank Limited	$31.59	$36.09	HOLD
SGT	Singapore Telecommunications Limited	$3.11	$3.21	BUY
SHL	Sonic Healthcare Limited	$16.72	$16.01	HOLD
SIP	Sigma Pharmaceuticals Limited	$1.60	$1.41	SELL
SKI	Spark Infrastructure Group	$1.98	$2.19	BUY
STO	Santos Limited	$14.12	$13.35	SELL
SUN	Suncorp-Metway Limited	$16.92	$18.90	HOLD
SYB	Symbion Health Limited	$3.98	NA	NR
TAH	TABCORP Holdings Limited	$14.78	$16.19	HOLD
TEN	Ten Network Holdings Limited	$2.74	$3.10	HOLD
TLS	Telstra Corporation Limited	$4.69	$4.79	HOLD
TOL	Toll Holdings Limited	$11.45	$13.40	HOLD
TTS	Tatts Group Limited	$3.99	$4.60	HOLD
VBA	Virgin Blue Holdings Limited	$2.10	$2.54	HOLD
WAN	West Australian Newspapers Holdings Limited	$12.53	$13.00	SELL
WBC	Westpac Banking Corporation	$27.92	$33.04	BUY
WDC	Westfield Group	$21.00	$23.30	BUY
WES	Wesfarmers Limited	$40.50	$47.58	HOLD
WOW	Woolworths Limited	$33.99	$32.55	HOLD
WPL	Woodside Petroleum Limited	$50.39	$51.00	HOLD
WSA	Western Areas NL	$5.45	$6.20	HOLD

All valuations and Prices in A$ unless otherwise stated

Source: IRESS, GSJBW Research

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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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[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.
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Recommendation	Overall	Corporate relationship* in last 12 months
Sell	9%	13%
Hold	61%	54%
Buy	30%	33%

* 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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