

Private Wealth Management

Portfolio Strategy Review - May 2008

Investment Strategy | Australia

Key Points:

- The Australian equity market (S&P/ASX200) continued to rally strongly during the first part of May, led by the Energy and iron ore companies on the back of record oil prices and ongoing M&A activity in the iron ore and domestic gas sectors. The market ended the month up (+1.4%) after some profit taking in the Resources and renewed credit concerns after a number of leveraged corporates indicated they were experiencing further difficulties in refinancing short term debt.
- During May, investor focus shifted to the oil price as it continued to reach record highs (touching US\$133/bbl) and the potential impact on interest rates, consumer demand and inflation. Investors also digested the major banks' interim results, a proposed merger between Westpac and St George and the implications of the part sale of Santos's LNG project to Petronas on domestic gas reserve valuations. The steady stream of profit warnings continued reflecting higher costs and slowing demand. **Energy/Resources, Tech and Telecom stocks outperformed** while the REITs, Financial and Industrial sectors lagged.
- The economic data flow during May provided clear signs the domestic economy is slowing, with retail sales, building approvals and credit growth all declining. The RBA reduced its growth forecasts and kept rates on hold, while the Government's budget provided a contractionary impulse of 0.3% of GDP. Employment growth remained solid while the AUD continued towards parity with the USD ending the month at 95.6¢ (+1.2¢).
- The key issue for investors remains the trade-off between risks to corporate earnings in light of a rapidly deteriorating domestic economic outlook and increasing inflation risks; versus increasingly attractive valuations for equities. We continue to favour defensive sectors over domestic leverage, particularly given the increasing uncertainty in the domestic earnings outlook. The potential for the USD to find support as sentiment around credit availability improves, suggests stocks with offshore earnings could outperform during the second half of 2008.

Goldman Sachs is currently acting as Financial Advisor to BHP Billiton and as such is an associate of BHP Billiton for the purpose of the Takeover Code

Private Wealth Management Investment Strategy

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Performance Table – May 2008

	Accumulation Index Performance Since		
	31/03/2008	31/10/2007	30/04/2007
S&P/ASX 200	1.4%	-11.7%	-6.7%
S&P/ASX 200 Industrials	-1.4%	-18.7%	-18.7%
S&P/ASX 200 Resources	7.6%	7.1%	35.3%
S&P/ASX Small Ordinaries	3.9%	-11.1%	-10.3%
	Relative Index Performance to S&P/ASX 200		
	1 Month	6 Months	12 Months
Consumer Discretionary	-3.4%	-16.6%	-25.1%
Consumer Staples	-1.5%	0.2%	4.8%
Energy	18.4%	40.5%	49.5%
Financials	-3.8%	-11.7%	-17.3%
Healthcare/Biotech	-3.7%	12.7%	17.9%
Industrials	-4.2%	-13.2%	-17.8%
Information Technology	4.8%	4.4%	-11.4%
Materials	2.4%	14.5%	34.7%
REITS	-10.4%	-15.6%	-25.4%
Telecommunication Services	3.1%	14.0%	7.8%
Utilities	-0.8%	3.5%	-9.9%

Source: IRESS, GSJBW Research estimates

ASX 200 Leading Contributors in May 2008

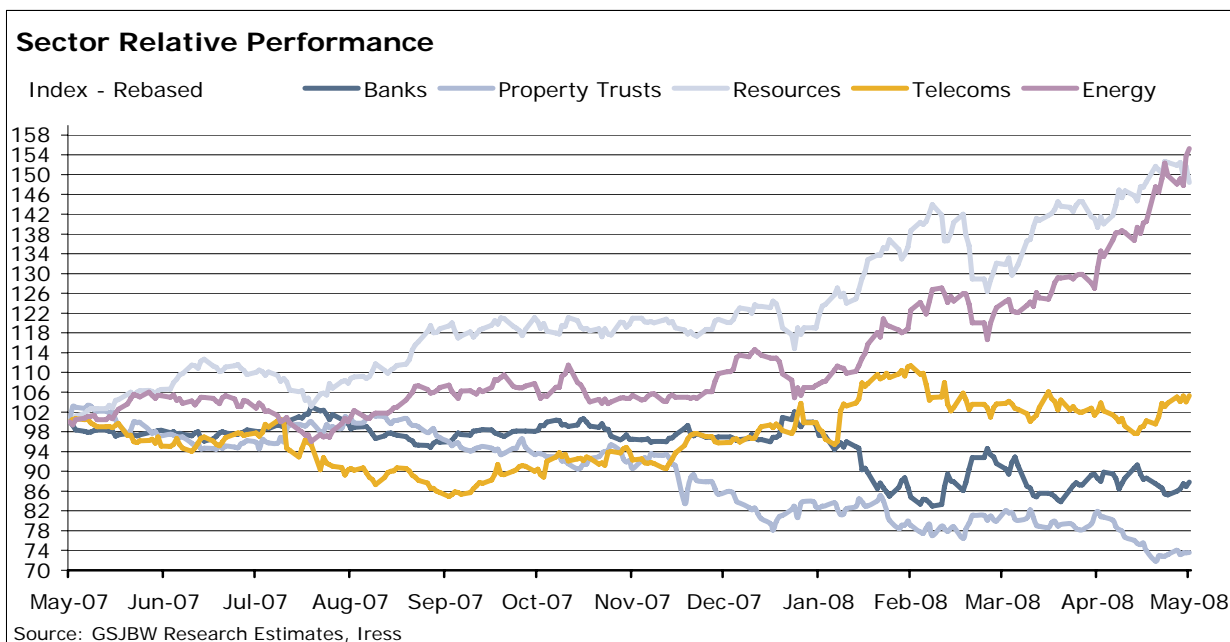
Top & Bottom 10 Pts Contributors over May - ASX 200

1.	ORG	22.6	WBC	-21.7
2.	SGB	20.7	CBA	-16.5
3.	FMG	20.1	MOG	-10.8
4.	WPL	18.6	WDC	-10.1
5.	STO	14.0	BHP	-6.2
6.	NCM	9.9	SGP	-5.8
7.	NAB	8.4	BXB	-5.5
8.	TLS	8.2	TCL	-5.1
9.	WES	5.5	GPT	-4.7
10.	PDN	5.3	RIO	-4.5

The ASX 200 Index increased by 45 pts in the month of May

Source: IRESS

Relative Sector Performance for the 12 Months ended May 2008



CONSUMER DISCRETIONARY – Underweight (prefer News Corporation, Austar)

Media

News Corporation (-1.1%) shares traded lower despite the release of a solid 3Q08 result, in which NWS reported a 7% rise in Q3 NPAT (pre NRIs) to US\$899m, and management reaffirmed guidance of "mid teens" operating income growth for FY08. **Consolidated Media Holdings' (-0.6%)** shares fell after Foxtel (CMH has a 25% interest) announced that would defer its short term debt refinancing. **Fairfax Media (-1.1%)** fell early in the month on continuing economic concerns and subsequent slowdown in advertising spend in both Australia and New Zealand. **West Australian Newspapers' (-1.7%)** share price declined and **Seek's (+8.6%)** rose. **Austar (+2.3%)** ended May higher, following the release of its 1Q08 result late last month. The company's on-market buyback commenced, acquiring c.10m shares (c.0.8% of ordinary capital).

Retail

Billabong (+.7%) ended the month flat on the back of continued concerns regarding consumer spending within its key markets (US and Australia). During May **David Jones (+4.9%)** reported 3Q08 'like for like' sales grew 2.3% (GSJBW est. 2.5%). This represents a significant decline from 1H08 which saw 'like-for-like' sales growth of 7.2%. **Harvey Norman (+2.2%)** continued to decline given the tougher retail trading conditions being faced in Australia.

Gaming

Tabcorp (-1.6%) fell over the month in the aftermath of the Victoria Government's surprise announcement on the New Gaming Industry Structure. During the month, TAH announced that it had lodged an application with the Northern Territory Government for a racing and sports wagering licence. **Tatts Group (-4.0%)** also ended lower despite market speculation of a possible merger with TAH (source: AFR). **Aristocrat (-0.8%)** fell early in the month following earnings downgrades post the AGM in late April and after a Federal Court Class Action against ALL was announced. **Crown (-4.0%)** shares fell despite MPEL reporting a good 1Q08 result driven by strong operating performance in VIP.

CONSUMER STAPLES - Overweight (Prefer Coca-Cola Amatil, Foster's, Wesfarmers and Woolworths)

Woolworths (-3.4%) ended the month lower on little specific news flow. **Metcash (-2.6%)** finished the month lower. During the month, there was press speculation (AFR) that MTS has lodged a bid for Symbion's pharmaceutical wholesale business. **Goodman Fielder (-2.2%)** also ended the month lower on little company-specific news flow. **Wesfarmers (+1.3%)** rose during May as it successfully completed the retail book build associated with its recent share entitlement offer. **Lion Nathan (+15.7%)** rebounded very strongly after a well-received first-half result. **Foster's Group (+8.5%)** enjoyed a better month, partly benefiting from LNN's rerating but also from ongoing M&A speculation in the global beer industry (source: FT). **Coca-Cola Amatil (-3.8%)** again declined this month despite issuing a solid trading update at its AGM. Investors are querying the effect of rising petrol prices on demand and whether input cost inflation will affect margins.

ENERGY - Neutral (Prefer Woodside Petroleum)

Oil prices rallied further during May, continuing to break records with WTI prices settling at US\$127/bbl at the end of the month, below the intra-month peak of US\$133/bbl. Energy stocks outperformed significantly during May as investors digested the valuation implications of the BG bid for Origin Energy and the sale by SANTOS of a 40% interest in its Gladstone LNG project.

Santos (+32.7%) rallied strongly during May, after it announced it had sold 40% of its interest in Gladstone LNG (an integrated coal seam methane project) to Petronas. The price paid by Petronas is above recent transaction multiples and crystallises value in Santos' CSM assets. **Oil Search (+29.3%)** also rallied on the back of the stronger oil price. **Woodside Petroleum (+16.3%)** ended the month higher despite the Government increasing the taxation applicable to condensate production from the North West Shelf (NWS) and onshore Australia in the Federal Budget. We estimate the higher excise rate will reduce annual earnings by ~2%. **Caltex (+24.4%)** ended May higher despite downgrading CY08 production guidance by ~2% and reiterating the ongoing strength of its marketing operations during a company update. **AWE (+17.5%), Roc Oil (+13.7%)** and **Tap Oil (+13.9%)** all traded higher during May on the back of the stronger oil price.

FINANCIALS ex PROPERTY TRUSTS - Overweight (Prefer ANZ, National Australia Bank, AXA and QBE)

Banks

Westpac Banking Corporation (-2.2%) announced its intention to merge with **St George Bank (+28.7%)** with a full scrip takeover offer of 1.31 WBC shares for every SGB share or a SGB share price (at deal signing) of \$33.10. **Commonwealth Bank (-5.6%)** provided a trading update. The key highlight from the update was that the group expects FY08 provisions charge to gross loans and acceptances to be 0.23% (versus GSJBW 0.18%). **National Australia Bank (+6.8%)** reported a strong 1H08 result above consensus and our forecasts. Cost management continued to be a focus for the business, delivering a 1H08 cost decline of 3%. **Macquarie Group (-10.9%)** announced a FY08 result of \$1,803m, roughly in line with previous outlook comments, however, below consensus.

Insurance

On the non-life side, **QBE (-3.4%)** increased its merger proposal for **IAG (-7.6%)**, but was rebuffed and hence terminated the offer. Subsequently, Mike Hawker (the CEO of IAG) resigned, allowing Mike Wilkins (the current COO and former head of Promina) to succeed him. **Suncorp (+5.7%)** rallied for three reasons: (1) it confirmed its FY08 guidance (2) it attracted some investor interest on the back of WBC's bid for SGB; and (3) it demonstrated that funding opportunities were opening up again.

Among the life insurers, **AMP (-6.3%)** announced soft 1Q cash flows, but in line with our expectations while **AXA (-11.1%)** continued to suffer in the absence of any material news flow (aside from the A\$/HK\$ continuing to move against it).

Diversified Financials

Perpetual (-6.1%) issued disappointing FY08 guidance, with the range around 7-14% below consensus. **Challenger (-4.8%)** suffered as investors focused further on the tough mortgage market, especially after GE indicated it might sell Wizard (SMH). **ASX (-4.2%)** fell further as investors continued to worry about the implications of the Federal Government's impending decisions on (1) licensing three competitors for equities trading and (2) whether to strip ASX of some, or all, of its supervisory powers. In addition, weak trading numbers in equities, options and futures did nothing to support the share price.

REAL ESTATE INVESTMENT TRUSTS - Underweight (Prefer Westfield Group)

The REIT 200 Index could not consolidate the gains it made in April, recording a -9.2% decline in May. Outperformers in May included **Valad Property Group (+5.2%)**, **Macquarie Office Trust (-6.8%)**, and **Babcock & Brown Japan Trust (-3.0%)**. Underperformers included **Centro Properties Group (-16.5%)**, **Mirvac Group (-21.7%)**, and **Stockland (-12.7%)**.

HEALTHCARE - Overweight (Prefer Cochlear and Healthscope)

Regulatory reform was back on the agenda this month with the Federal Budget increasing income thresholds for the Medicare surcharge (\$50,000 to \$100,000 for singles, \$100,000 to \$150,000 for couples), a move that has negative implications for both the health insurers and private hospital operators, **Healthscope (-16.6%)** and **Ramsay Health Care (-7.7%)**. At its AGM, **Sigma Pharmaceuticals (-4.2%)** elected not to confirm its FY09 guidance, citing unprecedented market uncertainty, delays in realising efficiency gains from the Dandenong manufacturing plant as reasons for the reduced clarity around earnings. At an investor conference in Asia, **Ansell (-4.3%)** reiterated its guidance for underlying FY08 EPS of US58-US62 cps but highlighted that latex and labour costs remain a major challenge. **ResMed (-10.7%)** reported its 3Q08 result with post-option NPAT up 13%. It was a quiet month for **Cochlear (-4.4%)** with no further news on its FDA letter in relation to BaHa. Imports into the US remain restricted and COH's existing inventory has now run down.

INFORMATION TECHNOLOGY - Overweight (Prefer Computershare)

Computershare (+6.6%) rallied as much as 16% at one point and thus received a price query. However, it fell back after the company said it had no new information to disclose and hence would not be revising its FY08 guidance at this stage. If anything, the continuing A\$ rally should be a drag on CPU's share price, though obviously the currency is a positive for its guidance (which is in US\$).

INDUSTRIALS - Overweight (Prefer Brambles, Macquarie Communications and Orica)

Leighton (+13.2%) continued the prior month's rally as it reported 3Q08 NPAT up 49.5% increase on the pcp. LEI also announced significant contract wins during the month. **Incitec Pivot (+8.8%)** reported 1H08 NPAT up 245% increase on the pcp, driven by an increase in the average DAP price to US\$658/t from US\$293/t. **Dyno Nobel (+8.2%)** shareholders approved the Scheme of Arrangement on May 22, bringing the takeover by IPL one step closer. **Orica (+5.5%)** strengthened throughout the month, while **Nufarm (-5.3%)** was down following its gradual upward trend since the beginning of the year.

Brambles (-7.9%) remained out of favour on continuing investor concerns over the future of its relationship with Wal-Mart following last month's announcement that Wal-Mart is reviewing the management of its pallet flows within the US. **Toll Holdings (-4.9%)** announced the sale of its New Zealand rail & ferry operations to the New Zealand Crown. As part of the consideration, TOL will receive a six-year rent-free period on existing Tranzlink premises. Airlines remained out of favour as the oil price continued to set new records, reaching an all-time high of ~US\$133/bbl during the month. Consequently, **Qantas Airways (+2.1%)** announced a number of cost-saving measures to combat rising fuel costs while **Virgin Blue (-17.4%)** continued to decline on concerns over the impact of escalating fuel costs. **Asciano (+8.5%)** rebounded after announcing that the restructuring of its grain haulage business was proceeding as planned.

Infrastructure

Macquarie Communications Group (-20.7%) fell sharply despite a lack of news flow. Concerns about leverage appear to continue to weigh on the stock despite having no significant refinancing due until May 2010; while its upcoming deletion from the MSCI Index by 31 May is also potentially contributing to the weakness in its share price. **Transurban (-17.1%)** fell during the month while **ConnectEast (-9.2%)** declined following further negative press reports (AFR) relating to concerns over the solvency of the Lane Cove Tunnel in Sydney due to weak traffic volumes. **Macquarie Airports (+1.3%)** reported a reasonable set of traffic results for April and **Australian Infrastructure Fund (+8.1%)** again performed well on the back of very strong March Qtr traffic growth across its airport portfolio.

MATERIALS - Underweight (Prefer Boral and Newcrest Mining)

James Hardie (-7.2%) dropped after it reported a 61% decline in 4Q08 NPAT. **Boral (-3.0%)** ended up slightly above its April close. **CSR (-7.6%)** has a better than expected result essentially reflected a one-off \$17.8m gain on the sale of the company's 50% interest in the Enviroguard. **Adelaide Brighton (+5.2%)** was up as investors seem to favour the exposure to the more resilient non-residential and engineering construction markets, rather than the stagnant residential market.

Underpinned by seemingly perpetual upgrades to global steel prices, **Sims Group (+13.7%)** edged higher. Meanwhile, stronger HRC prices spurred solid gains in **BlueScope (+2.7%)**. **OneSteel (+12.6%)** also ended the month higher, with investors clearly overlooking concerns regarding higher scrap input costs on FY08 profits.

Diversified Resources

Both **BHP Billiton (+2.9%)** and **Rio Tinto (+1.4%)** continued to update the market on growth opportunities. BHP held a petroleum briefing in London earlier in the month outlining that the business was a key part of the energy portfolio with exploration success being the key to future success. RIO announced an increase in resources at Kennecott Utah Copper and the announcement of a 162mt lateritic nickel resource at its Sulawesi Nickel Project in Indonesia. RIO stated that base case production of 46ktpa nickel is envisaged commencing in 2015 with potential to support future expansion beyond 100ktpa.

Iron Ore

Continuing iron ore negotiations by Australia's major producers gave support to the sector during May. We added **Mount Gibson (+11.6%; \$3.27)** as a Conviction Buy idea on 1 May after we included a US\$10/t freight rate premium in our estimates for all of our iron ore companies under coverage. **Fortescue Metals Group (+44.1%)** saw it perform strongly while **Portman (+17.3%)** announced an off-market buy-back for 9.39% of its outstanding stock. During May we also initiated on two more iron stocks **Murchison Metals (-8.4%; \$4.14)** with a HOLD and **Sphere Investments (+60.9%; \$3.62)** with a HOLD. Both companies are in the explorer/developer phase of their flagship projects.

Base Metals

Nickel (-21.5%) fell significantly during May, due to a fall in stainless steel demand and ample supply side response. **Copper (-5.5%)** and **zinc (-5.5%)** also lost ground through the month, while **aluminium (+0.2%)** traded relatively flat mom.

Most of the copper stocks were flat after all having strong runs during the month. **Oxiana (-5.8%)** and **Equinox (-2.2%)** traced the copper price giving up early gains by month-end. **Pan Aust (-9.8%)** was lower while **Alumina (-0.9%)** hit a high of \$6.55 on 19 May, before giving up its gains to finish almost flat. **Kagara (+2.5%)** was strong on the news the construction of the Mungana treatment plant had commenced.

Precious Metals

Gold broke through the US\$900/oz barrier towards the end of the month after bottoming out at ~US\$850/oz on the 1 May. In our view, the recent fall in the gold price was a direct function of traders unwinding their short US/long commodity positions. We remain bullish on the outlook for gold, mainly driven by growing inflationary pressures. Our trading range for the next 12 months remains US\$850-1,100/oz.

Newcrest (+10.2%) regained some ground during May hitting a high of \$35.15, but pulled back sharply at the end of the month following a fall in the gold price. **Sino Gold (+16.4%)** ran after announcing a \$204m accelerated rights entitlement while **Avoca (+10.6%)** hit its all-time high of \$2.86, but in unison with the gold price failed to consolidate its gains in the latter part of the month. Both **Aquarius Platinum (+0.4%)** and **Platinum Australia (+17.2%)** surged on the back of a strong move in platinum (+10.0%).

Coal

A 14.9% purchase by ArcelorMittal and further talks of a potential transaction saw **Macarthur Coal (+14.9%)** perform solidly while **Centennial (+13.1%)**, **Felix Resources (+58.2%)** and **Riversdale (+35.0%)** continued to perform strongly as talk of further consolidation in the sector supported the coal stocks during the month of May. We initiated on **Whitehaven Coal (+44.2%; \$3.98)** with a HOLD recommendation. Whitehaven was formed in 1999 to develop the Canyon open-cut coal mine in the Gunnedah Basin, NSW.

Uranium

Despite the uranium price falling US\$5/lb to US\$60/lb, uranium stocks performed solidly with **Energy Resources of Australia (+26.7%)** and **Paladin Energy (+37.4%)** as speculation of corporate activity (source: AFR) in the sector boosted performance.

TELECOMMUNICATION SERVICES - Overweight (Prefer Telstra)

Telstra (+4.2%) ended the month higher as debate continued on the National Broadband Network (NBN) RFP. As the government extended the tender deadline by 12 weeks, a number of parties (including Telstra, Terria, SingTel Optus,) lodged the \$5m bond required to proceed in the tender process. **SingTel (-6.8%)** shares fell despite a solid FY08 result. Investors may have been disappointed with no capital management announcement and cautious guidance provided on the Associates.

UTILITIES - Overweight (Prefer Origin Energy)

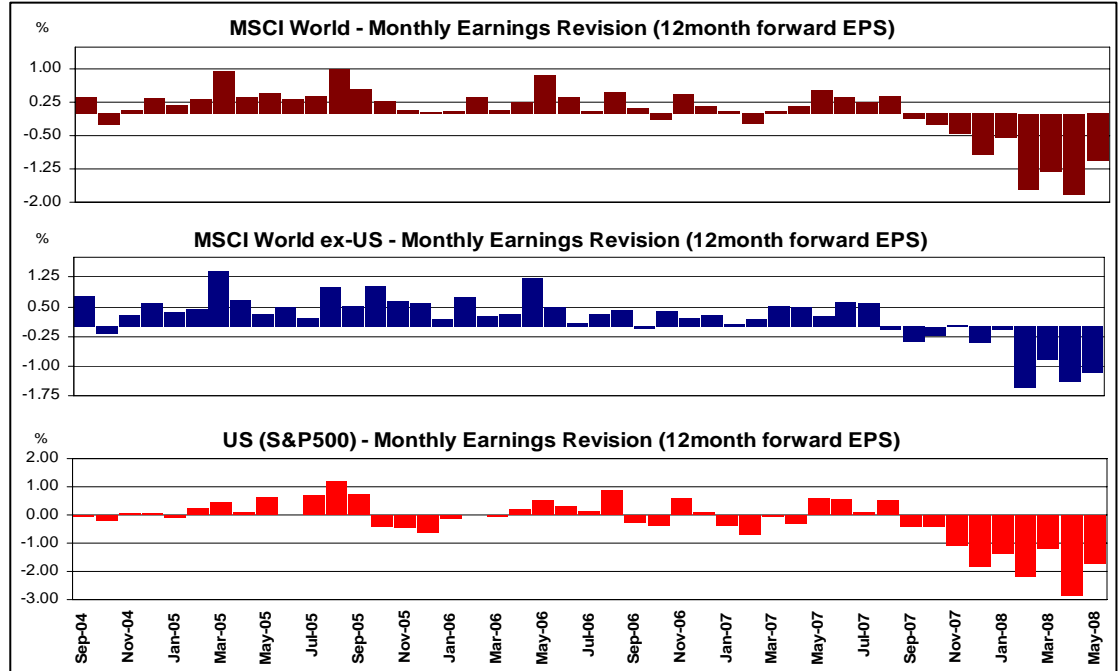
Origin Energy (+11.8%) performed strongly during May. After requesting it be placed in trading halt, the company announced it had rejected BG's initial \$14.70 cash offer and a subsequent revised cash offer of \$15.50. At the same time, ORG announced it had increased its reserves with 2P up to 4,715 PJ (+91%) and 3P up to 10,122 PJ (+121%) while disclosing contingent resources of 13,497 PJ and prospective resources of 17,947 PJ. At its investor day, **AGL Energy (+15.3%)** stated its growth strategy is focussed on: (1) Wind generation, which is underpinned by an expanded MRET scheme of 20% renewables by 2020; (2) Increasing gas reserves via CSM exploration; and (3) Retail margin expansion via Project Phoenix. AGL also formally announced the sale of its PNG assets. We value its PNG assets at ~\$900m. AGL is looking to complete the sale by the end of CY08. **Babcock & Brown Power (-29.6%)** fell sharply after announcing it must raise ~\$300m in equity. **APA Group (-11.9%)** announced it plans to establish an unlisted investment vehicle to reduce gearing.

EMERGING COMPANIES - Prefer (Austbrokers, Domino's Pizza and Sedgman)

Queensland Gas (+26.9%) had another strong month after forming a global LNG export alliance with BG Group. **Felix Resources (+58.2%)** gained from the positive outlook on coal prices as well as recent corporate activity in the sector. **Arrow Energy (+42.3%)** posted strong gains as the market continues to focus on the potential for higher domestic gas prices. **Riversdale (+35.0%)** continued to perform strongly as talk of further consolidation in the sector supported the coal stocks during the month of May. **Babcock & Brown Power (-29.6%)** fell after flagging to the market a potential \$300m capital raising triggering concerns over its financing position. **Healthscope (-16.6%)** came under pressure after the Rudd government announced planned changes to the Medicare Levy in its maiden Budget. **Independence Group (-22.4%)** and **Minara Resources (-18.4%)** both fell as the market reduced its exposure to nickel plays this month. **APA Group (-11.9%)** announced it plans to establish an unlisted investment vehicle to reduce gearing. Towards the end of the month, it fell on the back of QGC's proposal to construct a gas pipeline from southern Queensland to Newcastle in NSW.

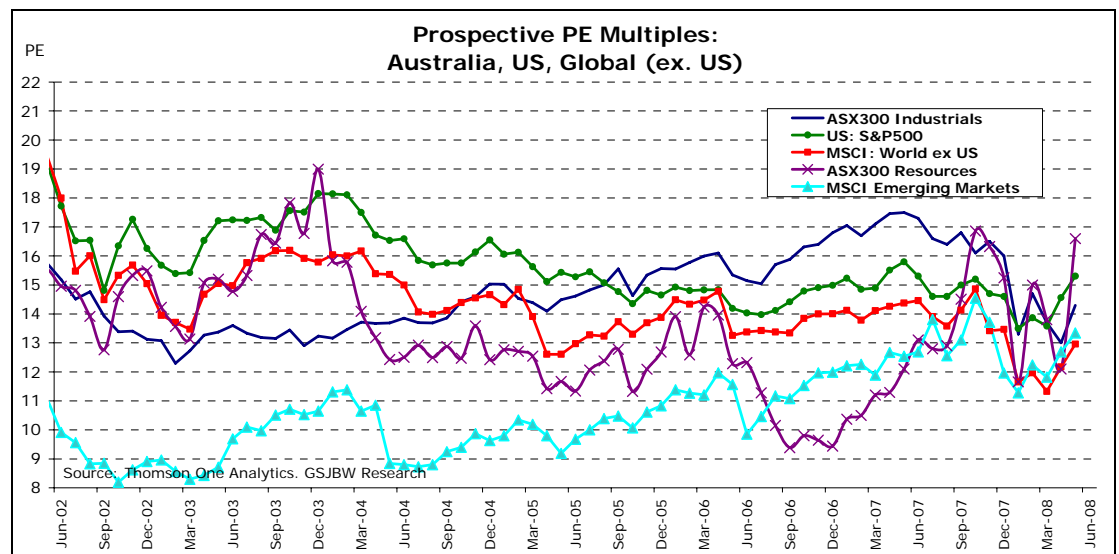
Market Analysis: Earnings Revisions and Prospective PER Values

With international markets continuing to digest mixed macro news flow, and as corporations maintain a cautious outlook on growth going into fiscal year 2009, it is no surprise that the trend of negative EPS revisions continued over the month. Credit markets remained tight over the period, and as such, we would expect to see earnings revisions to continue in a negative pattern pending a restoration of liquidity across global debt markets.



Source: Thomson One Analytics, GSJBW Research

Price Earnings Ratios across most global markets continued to expand over May, continuing the trend initiated in the previous month. Emerging market PE ratios also expanded over the month. We anticipate that markets will remain unsettled in the coming months – at least until global credit starts to free up, and as investors regain confidence and begin to assume a larger appetite for risk in positioning portfolios.



Portfolio Analysis: Commodities – Cycles, Secular & Investment Characteristics

The debate on commodity prices is almost as frenzied as the price movement themselves. The consistent question is whether the recent rise in prices is due largely to speculative activity or whether they continue to reflect the strains of demand against inability to supply.

One should be very mindful of the distinction between renewable products – grains, cotton etc and those with finite potential – essentially all hard commodities and energy. Even within the latter there are some where the costs and time to bring new supply into the market is considerable more complex and difficult than others.

Oil is by far the largest traded commodity and attracts considerable general interest. Many have daily pricing on exchanges, whereas for others such as coal or iron ore and some less well know minerals such as cobalt do not have accessible pricing benchmarks.

Speculative interest is very hard to quantify. Not all investment into funds is speculative as commodities have become an appropriate asset class, especially in a time of rising inflation. Earlier this year, the board of Calpers, the Californian Public Employees Retirement System authorised as much as 3% of the US\$240bn portfolio into commodity funds. Certainly there are hundreds of billions of US\$ in commodity funds, but that does not imply they are all driving prices higher. However, there are short term investors and hedge funds that will actively trade positions and cause volatility in expectation of changing momentum. This activity is not confined to commodity funds; volatility in all asset classes is higher than before. In our view, it is likely to remain that way for some time due to the impact of credit markets, higher inflation expectations and as investment flows constantly seek higher returns in an overall low return climate.

Demand debates are at least as complex. Clearly the recent movement in prices is not entirely just due to increased demand from developing nations. As one of our research analysts put it in the context of grain price movements: these countries' citizens did not suddenly decide to consume larger amounts of food. Demand for oil has not taken off recently, in fact in the March quarter, Chinese oil imports fell marginally. Data from the U.S. Department of Energy show the amount of petroleum products shipped by the world's top oil exporters fell 2.5% last year, despite a 57% increase in prices, a trend that appears to be holding true this year as well.

Past oil price rises have seen energy users move to other sources, however this time all energy prices have increased. In countries that pay commercial prices for oil, there is relatively little use outside transport and other non substitutable uses. However oil suppliers can afford to use it for energy production (some 35% of Middle East electricity comes from oil fired power stations), even if it is costly, as they are accruing comfortable levels of income from what they do export and the commodity is not rationally priced in those countries.

The long term story on demand is secular; as many countries in the developing and emerging world reach a level of income per capita, the rate of demand for food styles and products accelerates rapidly due to urbanisation and expectations.

That is why we consistently come back to supply as the key driver of medium/long term prices. We continue to recommend exposure to commodities where we do see supply constraints as the main issue.

What are the practical implications for Australian investors?

We recognise that commodity prices could be relatively volatile, but we encourage investors to see through this momentum and not be overly perturbed by daily/weekly movements. Dividend yields are also low, but reflect the capital requirements of investment and therefore capital growth opportunity.

We remain focused on companies that have longer term production potential rather than just leverage to price movements. Shorter life or high production cost stocks tend to rally sharply when commodity prices accelerate, but clearly have much more downside as well.

On balance we prefer the larger entities. Smaller companies are often highly dependent on a single reserve and may require considerable funds to bring it to production. Corporate activity has also taken off and while this adds excitement to the sector, it can also result in unrealistic valuations being mechanically applied to other companies and assets.

The table below gives a snapshot of the companies under our coverage universe. It does show, in terms of market capitalisation and net profit, how the resource sub sectors are dominated by one or two large companies.

	Market cap as at end May \$bn	Net profit 2009E \$m
Diversified Resources		
BHP	243.3	n.a
RIO Tinto	173.1	19743
TOTAL	416.4	
Energy		
Woodside	45.8	2125
Santos	12.4	834
Oilsearch	6.9	345
Caltex	4.1	353
AWE	1.9	236
ROC oil	0.7	74
Tap	0.3	16
TOTAL	72.1	
Gold		
Newcrest	14.4	723
Lihir	5.7	453
St Barbara	0.6	73
Avoca Resources	0.6	43
Kingsgate Consolidated	0.5	36
Apex Mineral	0.3	9
Bendigo Mining	0.1	-18
TOTAL	22.2	
Bulks		
Fortescue Metal Group	29.8	1709
Energy Resources Australia	4.7	190
Felix Resources	4.5	355
Macarthur Coal	4.2	358
Paladin Resources	3.5	67
Portman	2.8	398
Mount Gibson	2.6	371
Riversdale Mining	2	12
Centennial Coal	2	187
Whitehaven Coal	1.6	86
Murchison Metals	1.4	9
Sundance Resources	0.7	-15
Sphere Investments	0.5	-6
TOTAL	60.3	
Other metals		
Alumina	6.4	386
Oxiana	5.2	717
Aquarius Platinum	4.8	423
Zinifex	4.6	194
Equinox	2.9	777
Minara	2.2	75
Western Areas	1.7	50
Pan Australian	1.5	287
Iluka Resources	1.4	31
Kangara Zinc	1.1	107
Aditya Birla	0.9	194
Independence	0.8	40
Platinum Australia	0.6	37
Perilya	0.2	27
TOTAL	34.3	

Source: Company Data, GSJBW Research Estimates

Commodity stocks should be a core part of any portfolio, in particular the large diversified companies. Energy stocks are clearly being driven by the momentum in oil prices. We caution against chasing these as they rally, and recommend building positions in period of stock weakness. We favour WPL and OSH. In pure coal stocks, CEY is our preferred investment at this time.

In other commodities we like NCM for gold exposure and MGX or FMG for iron ore. AWC covers the potential in the aluminium price and EQN, PNA for base metals as well as OXR for those with more patience.

Media Sector Update

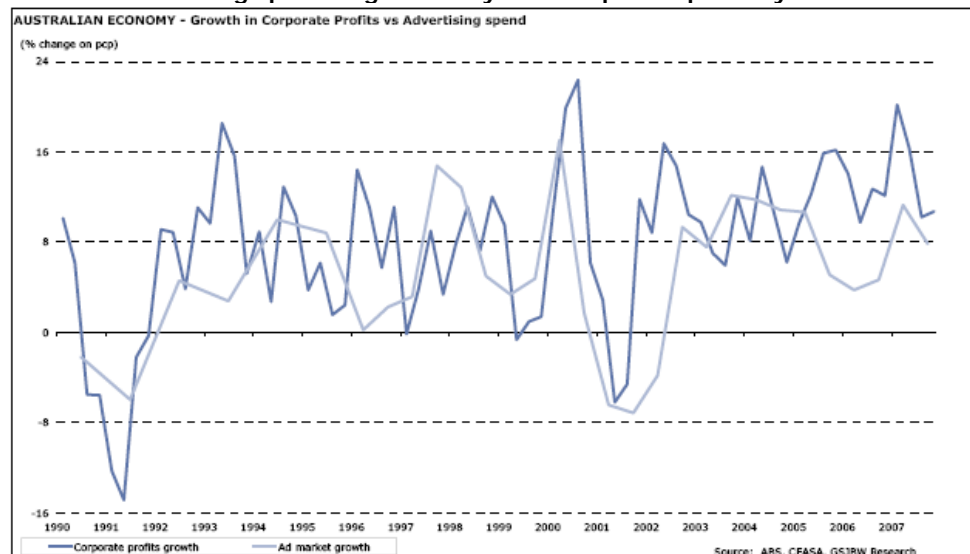
Risk to advertising spend in a slowing economy

Advertising expenditure is a corporate discretionary item, and unlike most other operating costs, companies have a great degree of flexibility when it comes to increasing or decreasing its levels. While an element of ad spend is generally retained to support meaningful brand positioning, under tighter economic conditions, there is generally a move of marketing spend away from advertising towards more targeted product promotion, price discounting and point of sale strategies. Furthermore, while large corporates tend to maintain a degree of advertising spend to maintain brand presence and market position, smaller companies may choose to pull advertising spend altogether or focus it on local markets. There are also some components of advertising that are less discretionary and more leveraged to economic activity directly, for example real estate or employment classifieds.

In addition to an overall slowdown in advertising spend is the impact on ad cycle dependent media types on the structural changes occurring in consumer habits and media consumption. Audiences are 'fragmenting', in other words choosing to consume media in different ways. Clear examples include slowing magazine and newspaper readership, in favour of the internet; or reduced free-to-air viewing in favour of PayTV. As consumers are changing their consumption habits, so must corporations in their advertising allocations to each media type, in order to gain better exposure to the markets they are targeting better returns on their advertising investments. This has seen a gradual shift of advertising dollars from traditional media types (i.e. FTA television, newspapers, magazines) to new media types (i.e. online, Pay TV).

Our GSJBW economics team reduced its growth forecasts recently, anticipating both slower growth in private consumption, and a peaking in corporate profit margins. As a consequence, we expect slower economic activity to weigh in on corporate advertising spend (see below chart which shows the correlation between corporate profit growth/decline and advertising spend). The link between private consumption and a weaker ad market relates to an overall reluctance of corporations to invest in advertising given consumers are less inclined to spend when economic conditions tighten. Historically, the advertising cycle has tended to lag the profit cycle by around 6 months, and hence we believe FY09 will be a cyclical low point for the advertising market.

Chart 1: Advertising spend aligns closely with corporate profit cycles



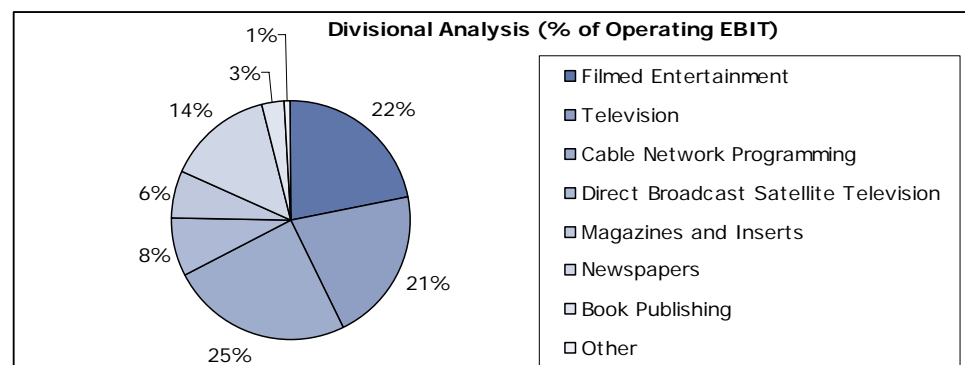
We remain cautious on the cyclical Australian media stocks. In the media sector, we prefer stocks with: (1) reasonable valuations; (2) strong business momentum; and (3) robust business models/business franchises. While the recent pullback in media sector stock prices has seen valuations return to seemingly attractive levels, the business momentum is clearly slowing and some business models appear under threat.

Our preferred picks in the Media sector are NWS and AUN – these stocks have limited dependency on advertising cycles and are benefiting from a strong structural growth thematic.

NWS – diversity of business segments and operational efficiencies continue to drive performance.

We believe News Corp is well positioned in terms of its structure to continue to deliver organic growth. The underlying business operations of News Corp continue to perform well despite concerns for the broader US economy. Operating momentum is strong across most of its business segments, in particular Cable Network Programming, Direct Broadcast Satellite Television and Fox Interactive Media as past investments such as Sky Italia, Fox News Channel and MySpace continue to transition from under earning to a positive contribution.

The business breakdown is as follows:



Source: Company Data, GSJBW Research Estimates

FY09 EBIT breakdown is as follows: Film 20%; TV 19%; Cable 24%; DBS 9%; Mags/Ins 6%; Newspapers 18%; Book 3%; Other 1%

We believe the company remains well on track to deliver (if not exceed) mid teens operating income growth for FY08 as well as maintaining double digit growth into FY09, driven by business segments which are largely independent of the US ad cycle (only ~32% of NWS earnings are exposed to the US ad market). The key segments for FY08 operating income growth (Cable Networks, Sky Italia and FIM) will also be key growth drivers for FY09, insulating the company to some degree from the US slowdown.

Despite the negative outlook for the US economy in 2008 we believe the key components of our News Corp investment case remain intact. We maintain our BUY rating on News Corp for four key reasons: (1) double-digit earnings growth (CAGR FY07-10 of 17%); (2) deep discount to both peers and GSJBW SOTP valuation; (3) diversified strategic asset base; and (4) well positioned to monetise content through digital distribution.

At current levels, NWS is trading at a significant discount to both Australasian and American peers despite what we consider to be a superior EPS growth profile. While a prolonged decline in the US economy will present a minor headwind to our earnings assumptions, we are comfortable that the overall structure of NWS positions it above competitors.

AUN – Pay television penetration in key rural sectors bodes well

Austar is currently in our Conviction BUY list, driven by a robust business model and strong operating performance that, in our view, remains supported by a combination of positive macro environment and a recent history of strong execution.

The regional economic environment remains supportive and pay TV offering continues to gain traction with consumers. While the broader economy appears to be showing signs of turning in recent months as interest rate hikes and rising fuel prices continue to bite, we believe these impacts will be more than offset by what has remained a generally positive rural economic outlook, buoyed by rising soft commodity prices and the breaking of the drought in many areas. AUN has a monopoly position in its market and, as a result, is in a strong position to take advantage of these trends.

Operationally Austar has delivered very strong operational execution in recent years. Its regional footprint has reached 28%, and we forecast it to rise to approximately 36% by 2013, driven by: (1) a deep product pipeline (incl. MyStar PVR, High Definition channels); (2) exclusive content (i.e. sport, drama, children's programming); and (3) an attractive pricing strategy and value proposition. Austar remains very focused on its cost base to ensure operational leverage to top-line growth. Costs (incl. programming) continue to decline on a cost/subscriber basis due to the increasing scale benefits. Further, as its penetration grows and its share of TV viewing rises, Austar will continue to benefit from the structural shift in advertising spend from traditional media (namely broadcast television).

At its AGM, shareholders approved a \$300 million capital management program. Although this entire amount is dependant on an extension of the company's existing debt facility, we estimate that the company can afford to return ~\$180m under its existing debt facilities, by way of an on-market buyback, capital return, or capital reduction.

STOCK RECOMMENDATION SUMMARY				
		Price (\$A)	12 Month Price Target (A\$)	Recommendation
Code	Name	30-May-08		
ABY	Aditya Birla Minerals Limited	\$2.79	\$4.20	BUY
AMP	AMP Limited	\$7.34	\$8.50	HOLD
ANZ	Australia and New Zealand Banking Group Limited	\$21.68	\$24.18	HOLD
AQP	Aquarius Platinum Limited	\$17.00	\$18.50	HOLD
AUB	Austbrokers Holdings Limited	\$4.25	\$5.12	BUY
AUN	Austar United Communications Limited	\$1.35	\$2.05	BUY
AVO	Avoca Resources Limited	\$2.72	\$3.20	BUY
AWC	Alumina Limited	\$5.68	\$7.80	BUY
AWE	Australian Worldwide Exploration Limited	\$4.29	-	NR
AXA	AXA Asia Pacific Holdings Limited	\$5.28	\$7.00	BUY
AXM	Apex Minerals NL	\$0.78	\$1.25	HOLD
BDG	Bendigo Mining Limited	\$0.30	\$0.40	HOLD
BLD	Boral Limited	\$6.03	\$6.90	HOLD
BXB	Brambles Limited	\$8.20	\$9.17	HOLD
CBA	Commonwealth Bank of Australia	\$42.32	\$41.93	SELL
CCL	Coca-Cola Amatil Limited	\$8.09	\$9.75	BUY
CEY	Centennial Coal Company Limited	\$5.10	\$6.17	BUY
COH	Cochlear Limited	\$54.19	\$67.16	HOLD
CPU	Computershare Limited	\$9.54	\$10.40	HOLD
CSL	CSL Limited	\$39.80	\$38.66	HOLD
CTX	Caltex Australia Limited	\$14.95	\$14.20	HOLD
DMP	Domino's Pizza Enterprises Limited	\$3.55	\$4.10	BUY
EQN	Equinox Minerals Limited	\$4.93	\$7.80	BUY
ERA	Energy Resources of Australia Limited	\$24.70	\$21.61	HOLD
FGL	Foster's Group Limited	\$5.50	\$6.38	HOLD
FLX	Felix Resources Limited	\$23.10	\$17.58	HOLD
FMG	Fortescue Metals Group Ltd	\$10.65	\$9.62	BUY
HSP	Healthscope Limited	\$4.53	\$6.32	BUY
IGO	Independence Group NL	\$6.45	\$8.10	HOLD
ILU	Iluka Resources Limited	\$3.69	\$3.30	HOLD
KCN	Kingsgate Consolidated Limited	\$5.60	\$5.00	HOLD
KZL	Kagara Ltd	\$4.90	\$6.04	HOLD
LGL	Lihir Gold Limited	\$2.98	\$4.50	BUY
MCC	MacArthur Coal Limited	\$19.65	\$17.48	HOLD
MCG	Macquarie Communications Infrastructure Group	\$3.56	\$6.00	BUY
MGX	Mount Gibson Iron Limited	\$3.27	\$3.90	BUY
MMX	Murchison Metals Ltd	\$4.14	\$4.59	HOLD
MOG	Macquarie Group Limited	\$54.50	\$66.20	HOLD
MRE	Minara Resources Limited	\$4.74	\$6.30	HOLD
NAB	National Australia Bank Limited	\$31.31	\$36.92	BUY
NCM	Newcrest Mining Limited	\$31.84	\$39.00	BUY
NWS	News Corporation	\$19.78	\$30.65	BUY
ORG	Origin Energy Limited	\$15.60	-	NR
ORI	Orica Limited	\$30.30	\$32.86	BUY
OSH	Oil Search Limited	\$6.14	\$6.75	BUY
OXR	Oxiana Limited	\$3.09	\$4.60	BUY
PDN	Paladin Energy Ltd	\$5.84	\$4.23	SELL
PEM	Perilya Limited	\$0.79	\$2.50	HOLD
PLA	Platinum Australia Limited	\$2.72	\$3.60	BUY
PMM	Portman Limited	\$17.52	\$19.91	BUY
PNA	Panaust Limited	\$1.07	\$1.40	BUY
QAN	Qantas Airways Limited	\$3.47	\$4.35	HOLD
QBE	QBE Insurance Group Limited	\$24.44	\$30.00	BUY
RIO	RIO Tinto Limited	\$138.00	-	NR
RIV	Riversdale Mining Limited	\$10.80	\$8.78	HOLD
ROC	ROC Oil Company Limited	\$2.40	\$3.80	BUY
SBM	St Barbara Limited	\$0.61	\$1.00	HOLD
SDL	Sundance Resources Limited	\$0.38	\$0.25	HOLD
SDM	Sedgman Limited	\$2.90	\$3.23	BUY
SGB	St George Bank Limited	\$34.22	\$28.76	HOLD
SGP	Stockland	\$6.31	\$6.72	SELL
SGT	Singapore Telecommunications Limited	\$2.87	\$3.20	HOLD
SPH	Sphere Investments Limited	\$3.62	\$3.07	HOLD
STO	Santos Limited	\$21.08	\$24.00	HOLD
SUN	Suncorp-Metway Limited	\$14.43	\$16.00	HOLD
TAP	Tap Oil Limited	\$1.93	\$2.40	HOLD
TLS	Telstra Corporation Limited	\$4.75	\$5.27	BUY
WBC	Westpac Banking Corporation	\$23.25	\$26.63	HOLD
WDC	Westfield Group	\$17.06	\$20.82	HOLD
WES	Wesfarmers Limited	\$37.90	\$46.16	BUY
WHC	Whitehaven Coal Limited	\$3.98	\$3.10	HOLD
WOR	WorleyParsons Limited	\$37.30	\$40.23	HOLD
WOW	Woolworths Limited	\$27.72	\$32.01	HOLD
WPL	Woodside Petroleum Limited	\$65.00	\$72.00	BUY
WSA	Western Areas NL	\$10.07	\$7.50	HOLD
ZFX	Zinifex Limited	\$9.50	\$14.69	BUY

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JBWere

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Sell (S)	Stock is expected to underperform 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

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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.

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EPU Growth:	Ranking of Earnings Per Unit growth relative to other listed Real Estate Investment Trusts. Used instead of EVA™ Trend.
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Sell	8%	7%
Hold	58%	61%
Buy	34%	32%

* 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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