UPDATE

1 July 2008

Private Wealth Management

Portfolio Strategy Review - June 2008

Equity Strategy | Australia

Key Points:

- **Risk aversion returned to the Australian equity market (S&P/ASX200) during June with the market finishing down (-7.5%). The risks around inflation pressures from higher oil prices, ongoing concerns about offshore financial sectors and further evidence the domestic economy is slowing saw investors reduce their equity exposure. Financial year end tax loss selling combined with a US led sell off late in the month saw the market retest previous lows set in mid March.**
- **The market (S&P/ASX200) finished the 12 months to 30th June down 13.4%, the first negative return for a financial year since 2002/03. Increased volatility reflecting the unfolding credit crisis in the US combined with a significant increase in the oil price has been a feature of markets over the last 12 months. The ASX200 peaked on 1 November 2008, and has fallen 23.6% since then; the first bear market since the end of the "dot-com" bubble in 2001/02.**
- **During June, investors remained focused on the oil price as it continued to trade around record highs (touching US$140/bbl) and the potential impact on interest rates, consumer demand and inflation. Investor concern around financials was renewed as offshore banks continued to report large write downs and look for equity. Credit availability improved but remains tight (and expensive) from a historical perspective. The steady stream of profit warnings continued reflecting higher costs and slowing demand. Energy/Resources, Tech and Consumer Staple sectors outperformed while the Consumer Discretionary, Financial and Utilities sectors lagged.**
- **During FY08 Energy and Resources outperformed significantly, the only sectors to post positive returns. The brunt of the selling was experienced in Consumer Discretionary, REITs, Industrials and Financials which experienced declines exceeding 25%, the majority of this occurring over the last 6 months. To date the share price declines have been driven largely by PE deratings in anticipation of increasing earnings risk with relatively little by way of negative earnings revisions coming through outside of those companies with excessive leverage.**
- **The economic data flow during June provided further evidence that the domestic economy is slowing, with retail sales, building approvals and credit growth all continuing to soften. Employment growth turned negative, recording the first fall in 18 months while the RBA kept rates on hold after confirming inflation is high and demand will need to slow. The AUD remained strong ending the month at US96.6¢ (+1¢).**
- **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 heading into the key August reporting period, particularly given the increasing uncertainty in the domestic earnings outlook over the next 6 months. The potential for the USD to find support as sentiment around credit availability improves, suggests stocks with offshore earnings could outperform during FY09.**

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.

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Performance Table – June 2008

	Accumulation Index Performance Since		
	31/05/2008	31/12/2007	30/06/2007
S&P/ASX 200	-7.5%	-15.9%	-13.4%
S&P/ASX 200 Industrials	-11.0%	-25.7%	-26.1%
S&P/ASX 200 Resources	-0.2%	10.9%	27.5%
S&P/ASX Small Ordinaries	-11.3%	-19.2%	-20.5%
	Relative Index Performance to S&P/ASX 200		
	1 Month	6 Months	12 Months
Consumer Discretionary	-7.0%	-22.5%	-27.1%
Consumer Staples	-1.3%	-2.2%	4.1%
Energy	9.1%	45.0%	51.1%
Financials	-4.4%	-13.9%	-17.8%
Healthcare/Biotech	-3.2%	3.9%	15.2%
Industrials	-2.6%	-12.7%	-19.7%
Information Technology	3.9%	8.2%	-6.5%
Materials	6.0%	21.2%	34.0%
REITS	-3.4%	-14.7%	-22.9%
Telecommunication Services	-3.5%	6.4%	9.2%
Utilities	-3.6%	-2.8%	-12.6%

Source: IRESS, GSJBW Research estimates

ASX 200 Leading Contributors in June 2008

Top & Bottom 10 Pts Contributors over June - ASX 200

1.	FMG	8.2	NAB	-39.4
2.	WPL	5.6	WBC	-30.5
3.	BXB	3.5	ANZ	-28.5
4.	IPL	3.5	TLS	-26.4
5.	BHP	3.5	WOW	-19.9
6.	LGL	3.2	SGB	-19.9
7.	OSH	3.0	CBA	-14.3
8.	ORG	2.3	CSL	-11.2
9.	SGM	2.2	QBE	-9.1
10.	ILU	2.8	MQG	-8.1

The ASX 200 Index decreased by 439 pts in the month of June

Source: IRESS

ASX200 Leading Contributors for the 12 months ended June 2008

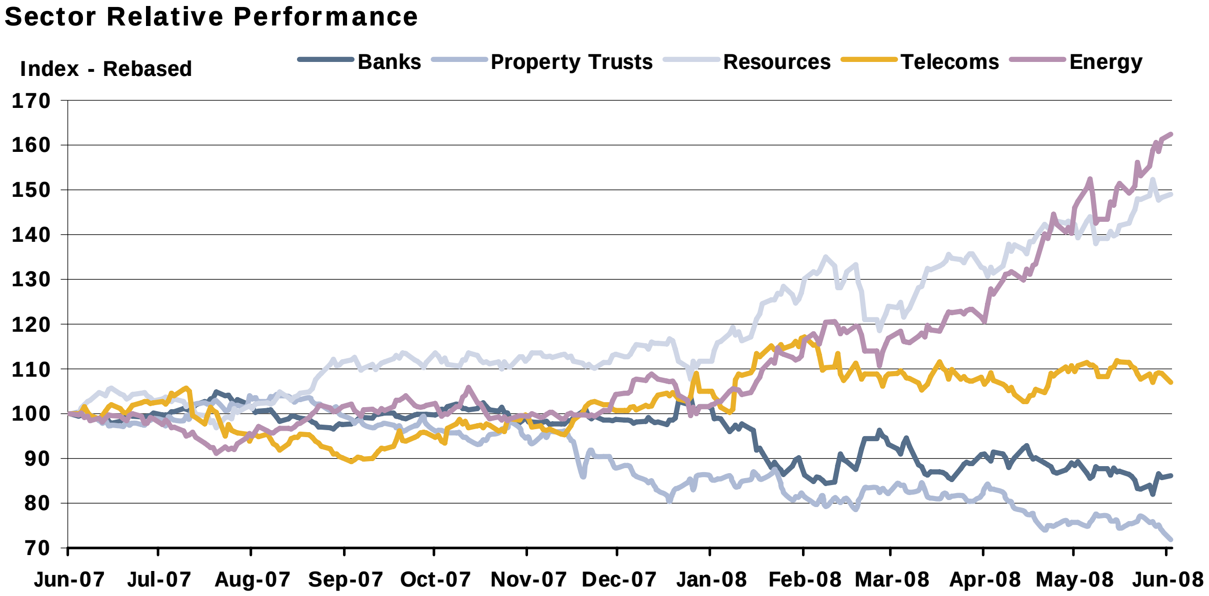
Top & Bottom 10 Pts Contributors for the 12 months ended June 2008 - ASX 200

1.	BHP	148.1	NAB	-120.4
2.	FMG	56.3	CBA	-101.4
3.	RIO	53.0	ANZ	-99.2
4.	WPL	49.8	WBC	-53.6
5.	IPL	27.8	MQG	-49.7
6.	ORG	27.2	QBE	-39.7
7.	STO	22.2	CNP	-35.5
8.	CSL	18.1	SUN	-34.0
9.	NCM	17.9	WDC	-32.6
10.	OSH	12.0	AMP	-32.6

The ASX 200 Index decreased by 1060 pts throughout the 2008 Financial Year

Source: IRESS

Relative Sector Performance for the 12 Months ended June 2008



Source: GSJBW Research Estimates, Iress

CONSUMER DISCRETIONARY

Media

News Corporation (-16.8%) shares fell despite Moody's upgrading NWS's long term debt rating to Baa1. In US newspapers, 2008 is shaping up to be a record-breaking downturn, with: 1) the third consecutive year of ad revenue declines; 2) a double-digit drop in annual ad revenues; and 3) what will likely be record declines in operating margins, with the revenue declines exacerbated by rising newsprint prices in the second half. In FIM, MySpace was overtaken by Facebook worldwide by c.10m monthly users, though still remains the clear leader in the US. **Consolidated Media Holdings' (-8.3%)** shares fell over continued concerns on a deteriorating TV ad market. The share price recovered slightly after Foxtel (CMH: 25% interest) announced it had 15,000 subscribers for its next-generation iQ2 digital video and new high-definition channels since launching at the beginning of the month.

Ten Network Holdings (-33.3%) plummeted to an all-time low of $1.35 following the release of a profit warning. TEN revised its March guidance that it would "better 2007 EBITDA", with a forecast 10% decline in FY08 EBITDA, citing further deterioration in external economic conditions. **Fairfax Media (-15.3%)** fell on concerns over: 1) a hard landing in NZ; 2) declines in metro newspapers; 3) further deterioration in classified volumes; and 4) negative rerating of offshore peers. **Austar (-17.0%)** shares fell on limited news flow. AUN's on market buyback was initially fairly inactive but picked up after shares fell below $1.20, acquiring c.2.0% of ordinary capital for the month.

Retail

Billabong (-10.6%) fell during June on concerns regarding the consumer spending environment in BBG's key markets. **David Jones (-23.2%)** declined sharply over June on concerns of a weakening domestic consumer spending environment. There was no company-specific news flow. **Harvey Norman (-16.3%)** continued to decline over ongoing concerns regarding the tougher retail trading conditions being faced in Australia. **Pacific Brands (-16.3%)** declined on little company-specific news flow.

Gaming

Tatts Group (-10.3%) announced it would write down the value ($776m) of the Victorian Gaming licence carried in the balance sheet of the parent company in the FY08. This is not expected to impact adversely on the group's consolidated profit for the remaining period of the gaming licence or its stated dividend policy. **Tabcorp (-12.7%)** continued to decline as the market continued to ponder its future following last month's announcement.

CONSUMER STAPLES

Woolworths (-11.8%) ended the month lower. During June the ACCC announced that it would oppose WOW's acquisition of a supermarket in NSW, citing a reduction in competition.

Wesfarmers (-1.6%) moderated during June. WES provided details regarding the impact of gas supply disruptions from the well documented rupture in the Apache pipeline and fire at Apache's Varanus Island processing hub. Based on WES's release and gas production comments by Apache we expect that the total impact will be between 1% and 3% of FY09 EPS.

Share price performance in **Foster's Group (-7.8%)** was volatile after it announced a strategic review of its wine business. In addition, it also announced the resignation of CEO Mr Trevor O'Hoy. The market is balancing possible benefits from a corporate restructuring against poor visibility for wine earnings. **Lion Nathan (-9.4%)** fell sharply on little news flow except perhaps the deteriorating economic conditions in New Zealand. Investor sentiment towards **Coca-Cola Amatil (-13.4%)** was negatively affected by profit warnings from two of its bottling peers in the Northern Hemisphere.

ENERGY

Oil prices continued to rally in early June, trading at ~US$135/bbl (WTI) for most of the month before reaching new highs in excess of $140/bbl (WTI) later in the month.
Woodside Petroleum (+3.9%) traded on oil price movement during the month as it was a quiet month in terms of company news flow. **Santos (+1.8%)** held an Investor Briefing, in which it discussed the resource upside from its Coal Seam Methane business, following the signing of Gladstone LNG joint venture partner. **Oil Search (+10.8%)** continued to rally, consolidating last month's gains. OSH continued its PNG exploration drilling.

Caltex (-12.6%) provided profit guidance of $175-195m (RCOP) for the first half, and downgraded transport fuels production guidance to 10.4-10.6 billion litres (previously "mid to upper 10 billion" litre range). The Caltex Refiner Margin averaged US$11.36/bbl (A7.70 cents/litre) for the first 5 months of 2008 (vs US$11.40/bbl or A8.94 cents/litre in pcp).

AWE (-3.0%) released a further upgrade of ~7% (or 3.1mmbbls) to oil reserves at Tui, bringing total Tui 2P reserves to 50.1mmbbls. Work on the merger with ARC Energy is ongoing, with the company targeting implementation for mid-August.

FINANCIALS ex PROPERTY TRUSTS

Banks

The Banks sector (-12.7%) continued its decline this month due to increased negative sentiment coming from offshore markets. In particular, the sector was impacted by negative news flows around further write downs and capital raisings in the UK as well as further analyst downgrades for US banks and brokers off the back of additional write downs across the market.

National Australia Bank (-15.4%) continued to decline through the month as the pricing period for its DRP program opened from 9 to 27 June. NAB also continued to feel the flow on impacts of negative sentiment driven out of the UK market. **ANZ (-13.7%)** took investors on a tour of some of its key businesses across Asia including Malaysia, Cambodia, and Vietnam. Key takeouts from the trip included that the focus of activities in the region has intensified with a significant uplift in the level of energy.

Macquarie Group's (-10.8%) Macquarie Capital as part of consortium, Macquarie Advanced Investment Group (MAIG) made an offer to acquire all the stapled securities of Macquarie Capital Alliance Group (MCQ), a listed private equity fund. The offer was for $3.40 cash or an unlisted security in the Macquarie Advanced Investment Group. This is the first of Macquarie's funds the group has looked to take private.

REAL ESTATE INVESTMENT TRUSTS

It was another tough month for the A-REITs (-12.5%). The sector traded ex distribution on 24 June. Outperformers in June included **Westfield Group (-4.6%)** and **Commonwealth Property Office (-1.5%)**. Underperformers included **Valad Property Group (-28.5%)**, **Macquarie DDR Trust (-24.8%)** and **Babcock & Brown Japan Trust (-23.1%)**.

HEALTHCARE

It was a particularly busy month for **Sonic (+1.0%)** announcing the acquisition of two German based pathology businesses. **Ansell (-15.8%)** commenced its 5 million share buyback on 13 June following a significant pull-back in the share price. Higher latex prices were most likely the key contributing factor. It was a quiet month for **Cochlear (-19.5%)** with no news flow on the ban of importation of BaHa implants to the US which remains in place. The HPV vaccine made headlines again for CSL **(-10.3%)** after success with a UK Government tender process. Separately, CSL announced that it has received approval from the TGA to register its avian flu vaccine (Panvax) in Australia. Panvax is a flu vaccine used only when a flu pandemic has been declared by the Australian Government. **Healthscope (-11.9%)** successfully completed a 3-year syndicated revolving debt facility totalling $850m, while **Ramsay Healthcare (-20.7%)** confirmed guidance for low double digit growth in FY08 Core EPS (10-12%).

INFORMATION TECHNOLOGY

Computershare (-3.5%), although down, had a strong month relative to the rest of the market. Investors appear to be becoming increasingly confident that CPU will comfortably achieve its FY08 guidance.

INDUSTRIALS

Chemicals

Incitec Pivot (+6.3%) finished in positive territory, despite the announcement that an unscheduled shutdown of the Phosphate Hill plant, while **Orica (-3.3%)** was down on April, although it outperformed the index after the company announced that the Bontang (Indonesia) plant had been given the green light. **Nufarm (-5.5%)** finished the month lower.

Commercial Services

Brambles (+6.5%) recovered some of its recent losses following management comments that it remains confident of "a positive outcome" from its negotiations with Wal-Mart "for future ongoing arrangements that will also maintain the efficiency of the overall supply chain".

Transportation

Toll Holdings' (-20.2%) share price continued to retreat on negative investor sentiment towards the Transport sector in general. Meanwhile, airlines remained out of favour as the oil price continued to set new records, **Qantas Airways (-12.4%)** announced further cost-saving measures to manage the impact of "precedented increases in oil prices". **Virgin Blue (-31.9%)** also announced a series of initiatives to combat rising fuel costs.
Asciano (-14.9%) came under pressure again in June despite container volumes at its key Australian ports continuing to show no signs of any impact from a slowing economy.

Infrastructure

Macquarie Communications Group (-7.9%) was weaker in June despite a lack of news flow. Ironically, MCG materially outperformed the remainder of the sector during the month. **Australian Infrastructure Fund (-10.7%)** declined following capacity reductions announced by Qantas and Virgin Blue. **ConnectEast (-30.1%)** was weaker in June on growing market concerns that initial traffic could fall well short of prospectus forecasts. **Macquarie Airports (-24.5%)** fell in line with the sector as the market responded to announcements by airlines to cut capacity in both Australia and overseas markets.

MATERIALS

Building Materials

James Hardie (-22.2%) finished the month lower, while **Boral (-6.3%)** moderated - industry sources informed us that BLD was implementing an irregular second round of cement prices increases. CSR **(-13.0%)** trended down with the index, despite strength in both sugar prices (+16.2% mom) and 27-month aluminium prices (+5.4%). **Adelaide Brighton (+2.7%)** outperformed the index as investors remain attracted to the lime business and support in the heavy-end construction materials business driven by infrastructure spending.

Steel

Continued strength in scrap prices (now ~US$740/t) and upgraded earnings guidance drove Sims Group (+10.9%) higher in May. OneSteel (+3.1%) also finished the month higher with concerns regarding higher scrap prices overshadowed by news of higher domestic long steel prices and a robust iron ore price settlement between a major Australian iron ore producer and Baosteel.

Diversified Resources

The resources sector continued to enjoy relative outperformance in June, falling by 0.2% versus a broader market decline of 7.5%. BHP Billiton (+0.5%) put in the stronger performance ahead of Rio Tinto (-1.8%). Key sector developments during June included a settlement of iron ore prices between RIO and Baosteel, in which the latter agreed to a 79.9% increase in the price of Hamersely Fines, and a 96.5% increase for lump ore.

Base Metals, Coal and Iron Ore

June saw mixed price performances for the major base metals, with gains for copper (+7.1%) and aluminium (+5.9%) but falls for nickel (-2.4%) and zinc (-3.2%). In the bulk commodities, spot market prices - and sentiment - for coal continued to soar, while RIO's iron ore settlement helped to cement confidence in some of the second and third tier iron ore stories. Yet the stocks that enjoyed price gains during June were a diverse minority: Iluka (+27.6%) led the pack, buoyed by improving market fundamentals and price outlooks for zircon and titanium dioxide feedstocks. Fortescue (+11.7%) also enjoyed good gains after a major site visit for analysts and investors and a further boost to sentiment from the iron ore price settlement. Centennial Coal (+10.6%) continued its steady rise, and Paladin (+9.8%) rebounded further from its April lows, apparently on the back of fresh record oil prices and the possible implications for other energy sources. At the other end of the performance scale, Minara (-31.4%) lost ground on a weaker nickel price and production losses arising from the Varanus Island gas disruption.

This incident also did Alumina (-16.6%) no favours, with Alcoa having to declare force majeure from its Australian refineries, but also being marked down on mounting cost pressures. Oxiana (-14.9%) lost ground after ZFX shareholders voted to proceed with the merger. Felix Resources (-26.4%) and Macarthur Coal (-14.2%) were the coal sector's weak performers as the immediate prospects of fresh corporate activity receded, with Macarthur failing to reach a deal with Arcelor-Mittal.

Precious Metals

Gold finished the month with a flourish, as a new record oil price and fresh US dollar weakness propelled the yellow metal back above US$900/oz. Gold's $32/oz price gain on 26 June was the largest single day increase in more than two years, and took the price to $931/oz, up 5.0% for the month. Platinum (+2.3%) enjoyed more modest gains. Of the precious metals equities, Platinum Australia (+10.3%) enjoyed the best performance, while Lihir Gold (+10.4%) was the strongest of the gold stocks. Newcrest (-8.0%) has been affected by disruptions to gas supplies at Telfer, but reassured the market on 27 June by announcing that it has now obtained sufficient alternative energy supplies to maintain full production.

TELECOMMUNICATION SERVICES

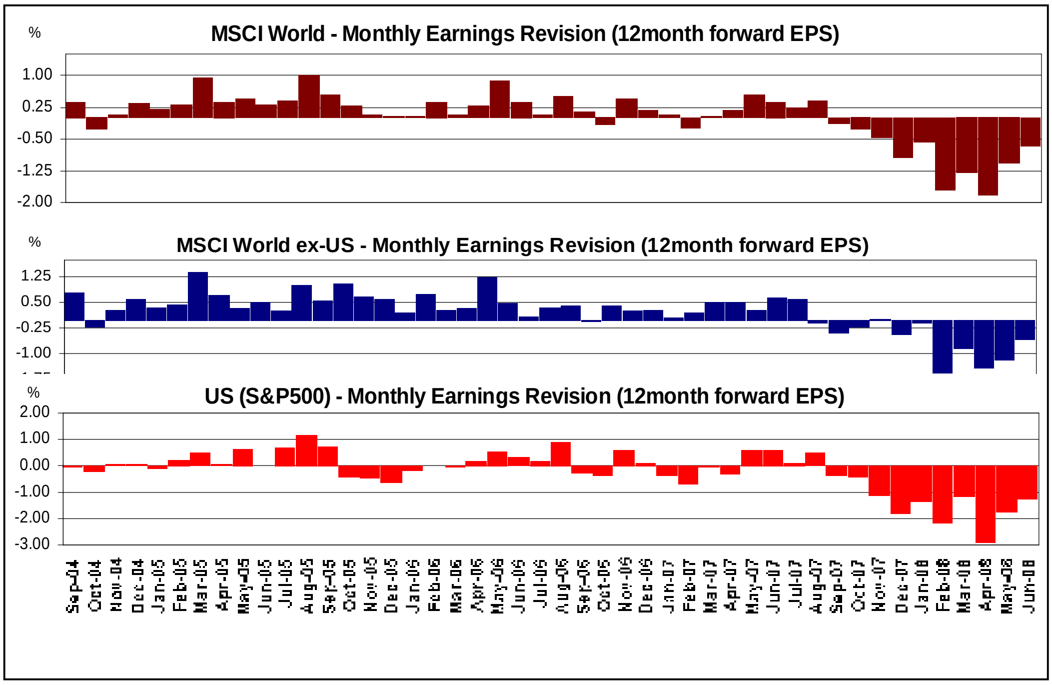
Telstra (-10.7%) fell amid a fresh push for structural separation from NBN rivals, margin selling and end of year tax loss selling. Telstra indicated Macquarie Capital Advisers will act as Telstra's financial adviser in Telstra's bid to build the NBN. SingTel (-2.8%) fell as its Associates' valuation declined during the month.

UTILITES - Overweight

Origin Energy (+3.3%) performed strongly during June. BG made a formal off-market takeover bid to acquire ORG at $15.50/share in cash, following ORG's rejection of BG's bid at the same price by way of scheme of arrangement in May. ORG responded to the new bid by advising shareholders to take no action in relation to the offer or any documents they receive from BG at this stage. AGL Energy (-0.8%) declined during the month on the back of the broader market. Babcock & Brown Power (-52.1%) continued its steep decline over market concerns on its capital restructuring and on the impact of the Varanus Island gas supply disruption to its Alinta business. APA Group (-4.2%) finished the month lower on the back of continuing credit market concerns as well as the disruption to gas supply from the Varanus Island gas explosion.

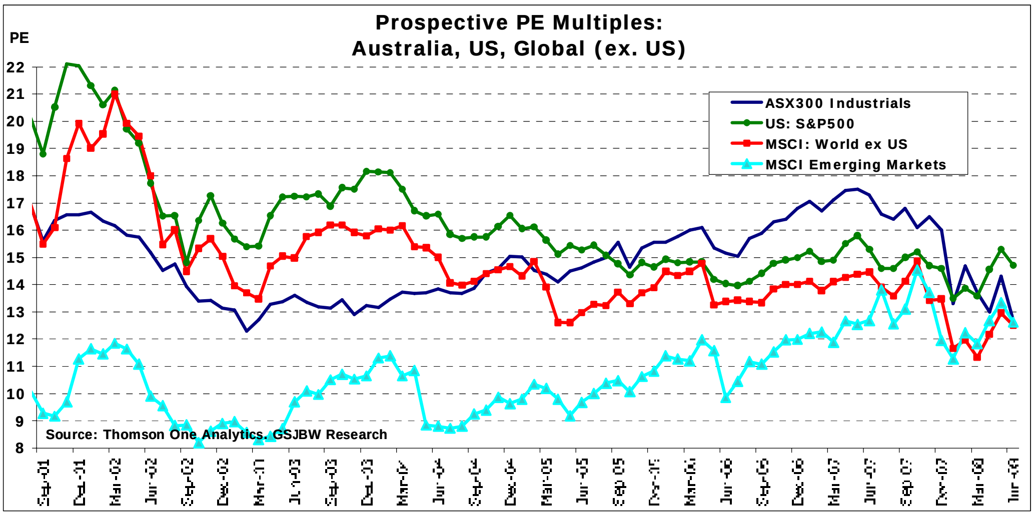
Market Analysis: Earnings Revisions and Prospective PER Values

Global EPS revisions on average continued to be negative in June but to a lesser extent than the downgrades seen over the past six months as the equity markets battle record oil prices and broad based cost push inflation. The key focus for many investors is trying to pick the trough in the EPS revision cycle when there are no immediate signs of an easing in credit availability or energy prices.

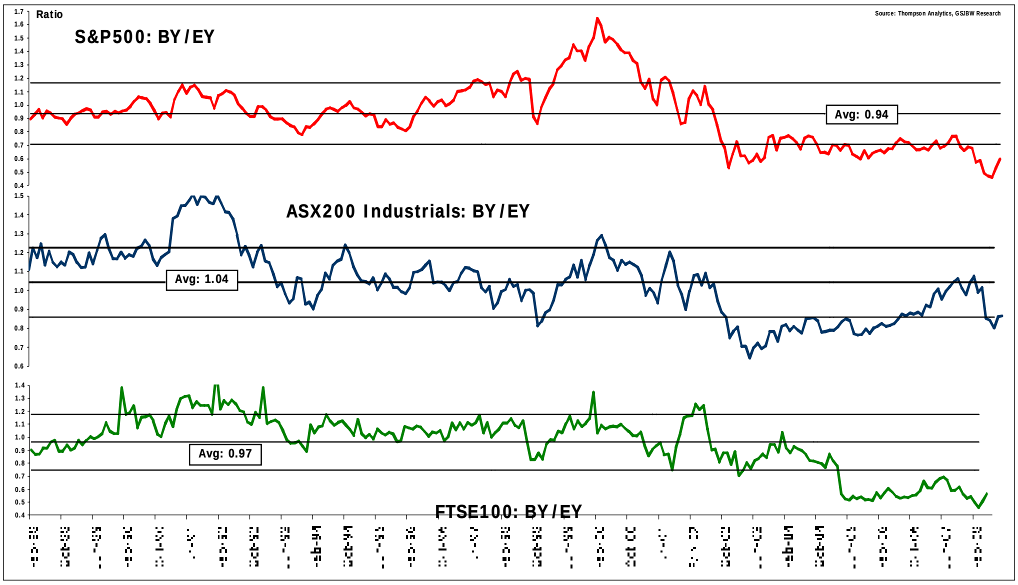


Source: Thomson One Analytics, GSJBW Research

Prospective PE multiples contracted in June as further volatility crept into global equity markets, placing hopes of a sustained recovery further into the distance. During the month, several US financial institutions announced more asset write-downs, once again highlighting that the sub-prime crisis was not going to go away, with investors fearing there could still be more to come.



The Bond Yield to Earnings Yield charts below show that major global equity markets continue to be undervalued compared to bonds, although this pattern does show some signs of reversing as illustrating by an upward movement across the three main indices displayed. Irrespective of value, equity market volatility continued in June, and as a result we would caution investors on becoming too positive on stocks that might appear cheap. Many stocks are exposed to cyclical headwinds, and as such we still favour defensive cash-flows and conservatively geared stocks as better positioned in the current bear market.



Source: Thomson One Analytics, GSJBW Research

Portfolio Analysis: Beverages

A defensive investment sector

The beverage sector offers defensive characteristics relative to many other sectors in the equity market. Consumers tend to hold their consumption patterns and are reluctant to switch into unknown brands and tastes. Some costs are subject to the current commodity cycle – aluminium cans, fuel for transport and the like, but a larger component is in labour where the cost environment is still subdued and marketing costs which can be partly adjusted based on demand patterns. The sector generally offers reasonable cash flow, which is supportive of growth initiatives, potential capital management and dividends.

Coca-Cola Amatil

Over the past month our beverages research team adjusted their rating on Coca-Cola Amatil (CCL) from Conviction Buy to Hold primarily on the back of recent profit warnings from Northern Hemisphere Coca-Cola bottling peers and tougher trading conditions.

At its trading update on 15 May CCL announced that earnings had been resilient in the face of soft volumes due to a wet summer and tough competition, as a result no changes were made to expected FY08 (Dec year end) earnings but later year earnings were downgraded by between 4% and 6%. Our beverages analyst noted that CCL is not immune to a slowing economy.

In June as a response to Northern Hemisphere Coca-Cola peers (Enterprises and Hellenic) profit warnings, CCL was downgraded to a Hold citing;

- Although CCL's market position in Australia is such that there is a good chance it could achieve its FY08 earnings guidance despite emerging headwinds, a more cautious approach was appropriate
- Earnings downgraded - FY08 EPS by 3%, which puts the GSJBW forecast 3-4% below company guidance.
- With the stock trading on a 13.5X FY08 PE multiple it does not offer compelling immediate near term value against the market

We prefer a neutral stance over a more negative one as;

- Northern Hemisphere issues are unlikely to translate directly to Australia.
- Relatively solid Australian economy with Coca-cola Enterprises USA experiencing negative volume growth for the first time in 35 years.
- The crucial selling period is not until November/December 2008 compared to the current northern hemisphere summer.
- Higher Australian EBIT margins cushioning impact of cost pressures.
- Strong market position, with Coke's market share in Australia one of the highest in the world and many consumers do not switch to competing product.

Key risks still remain such as a sharper decline in the consumer spend and a high petrol price environment where convenience store distribution channels are tied to fuel outlets.

Upside risks to our forecast earnings include better than expected Australian unit pricing and a fall in oil price towards the end of 2008. Conversely potential downside risks could materialise in the form of a negative movement in the Australian sales mix such that EBIT margins decline, a reduction in volumes and EBIT from Indonesia, and a decrease in SPC Ardmona margins given the drought and higher import competition.

In conclusion while there is some near term uncertainty on the outlook, confidence in CCL's earnings should be better than that for the overall market and the stock continues to offer a fully franked estimated yield of 5.7%.

Foster's Group Limited

In June Foster's (FGL) announced 3-5% downgrades to its FY08 underlying earnings guidance as a result of softness in its US wine business and a slowdown in growth in its Australian operations. It wrote off $600-700m of goodwill and announced a broad ranging strategic review of its wine business. Also its CEO, Trevor O'Hoy resigned.

As our FY08 forecasts were at the bottom end of the company's guidance, they were unchanged, but we downgraded FY09-10 forecasts by 2-4% reflecting a more subdued outlook for the wine business.

Our beverages analyst noted that given the increased likelihood of corporate restructuring (either internal or external), investors are now focused on the near-term sum of the parts valuations, and that this type of analysis could provide support for the share price.

The announcement that FGL is undertaking a "broad ranging strategic review of its wine business" is a major change of company strategy and mindset. Its position in the wine industry has been a source of frustration to some investors who have seen the strong returns from the beer operations diluted by wine acquisitions. However, with the recently elected Chairman clearly signalling that the board "will consider all possibilities", there is the real prospect that FGL could in time become a purer play on the Australian beer market.

A key question then is whether investors have underpriced FGL, i.e. in choosing to avoid exposure to the wine business, have they overlooked hidden underlying value in the beer business?

At face value, it would appear as if the stock is efficiently priced. If we place FGL's wine earnings at a 15% discount to the better performing Constellation Brands in the US and a Lion Nathan multiple for its beer operations, we derive a standalone sum of the parts valuation of $5.27/share.

Later in June the US Nielsen data showed the US wine market grew at +7% for the first half of 2008. While FGL's brand continues to lose market share at 1% value growth, the figure was in positive territory for the first time in 2008 highlighting that the US brand strength in the >US$9 category brands such as Chateau St Jean is offsetting continued declines in key <US$9 brands like Beringer and Meridian. However given the weak economic climate in the US, the higher priced brands are likely to struggle relative to the more moderately priced labels where FGL has not succeeded.

Goldman Sachs investment research published a recent note that examined whether the US-based Constellation Brands (STZ) would have interest in any wine assets potentially available subsequent to the FGL wine review. STZ owns a portfolio of brands across the wine, spirits and imported beer categories and is already a leading producer of Australia and New Zealand wine through its Hardy's subsidiary. The note suggests that the FGL wine assets could create value for STZ shareholders through an enhanced competitive position and lower cost base of a combined entity through overlapping markets and complementary portfolios – Australia, US, and UK are key markets for both STZ and FGL. The brand portfolios fit well together overall, and Goldman Sachs investment research sees multiple avenues for synergy creation across supply chain and distribution functions.

However, the question of whether FGL is ultimately a seller of wine assets is dependent on the outcome of FGL's ongoing strategic review, which in turn is partly dependent on the views of the yet to be appointed CEO.

FGL has a higher level of uncertainty than the other beverage stocks at present. The outlook for wine earnings remains problematic and a convincing turnaround is challenging. Corporate activity may keep the share price bubbling along, but otherwise we consider the two other stocks in this sector to be better positioned.

Lion Nathan

At its interim results for the 6 months to 31 March 08 LNN reaffirmed FY08 guidance (NPAT $265-275m, including Boag's acquisition) which was in line with GSJBW and consensus forecasts.

Consistent with its comments in November last year, LNN expects

- **"Significant step up in earnings in FY09", in line with GSJBW and consensus.**
- **It did not quantify "significant" but noted the NPAT range of analyst forecasts was reasonable (FY09 $294-313m, GSJBW $304m).**
- **Earnings contribution from Boag's not yet material. But integration is progressing well.**

The company pointed out that consumers continue to switch from mainstream brands across to higher margin brands including Steinlager Pure, Toohey's Extra Dry, Hahn Super Dry.

- **Pricing was solid for the period and to date slowing economic conditions have not had a discernible impact on demand. Input cost inflation had not subsided and LNN expects direct costs such as malt, hops, glass and aluminium to increase by 5-7% in FY09.**
- **Continued capital expenditures are expected over the next three years (primarily investment in upgraded brewing facilities) which will most likely preclude capital management during this time.**

At this time the GSJBW view on LNN is positive indicating that after three years of heavy investment and product innovation plus the recent Boag's acquisition, LNN is on the cusp of moving into a more consistent growth phase.

Although next year's input cost inflation (5-7%) puts pressure on LNN to deliver offsetting revenue growth, we believe that earnings visibility into FY09 is reasonably high. Key elements include first-time inclusion of Boag's during the key pre-Christmas selling period, increased availability of Boag's on the mainland, and ongoing take-up of higher margin beer brands.

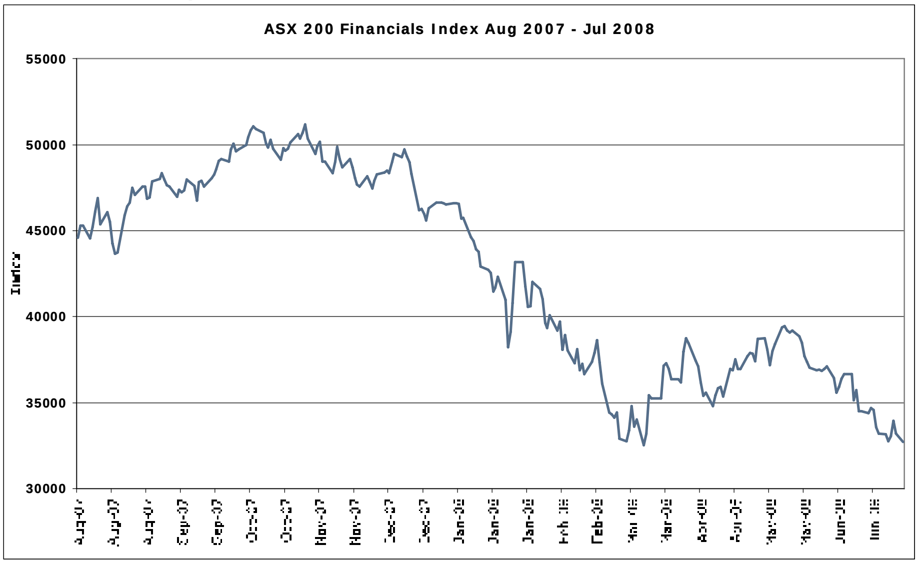
Although a current year PER of 16.5x looks full, it should be highlighted that this is impacted by a partial contribution from Boag's. We believe solid share price performance is likely over the course of this year as the market looks increasingly towards FY09.

Stock Analysis: Macquarie Group

Macro view

Since the US sub prime induced credit crunch, financial stocks globally have come under pressure from concerned investors. The impact of this has been most pronounced in the US, with the collapse of Bear Sterns creating jitters across financial markets, leaving many to speculate where this leaves other large financial institutions. Many US investment banks continue to announce asset write downs due to their exposure to sub-prime related debts, while back home, the benchmark ASX 200 financial index (see chart below) currently trades on 11 times FY08 earnings versus 16 times in October last year, pre the credit crisis.

Financials index performance since last year's credit crunch



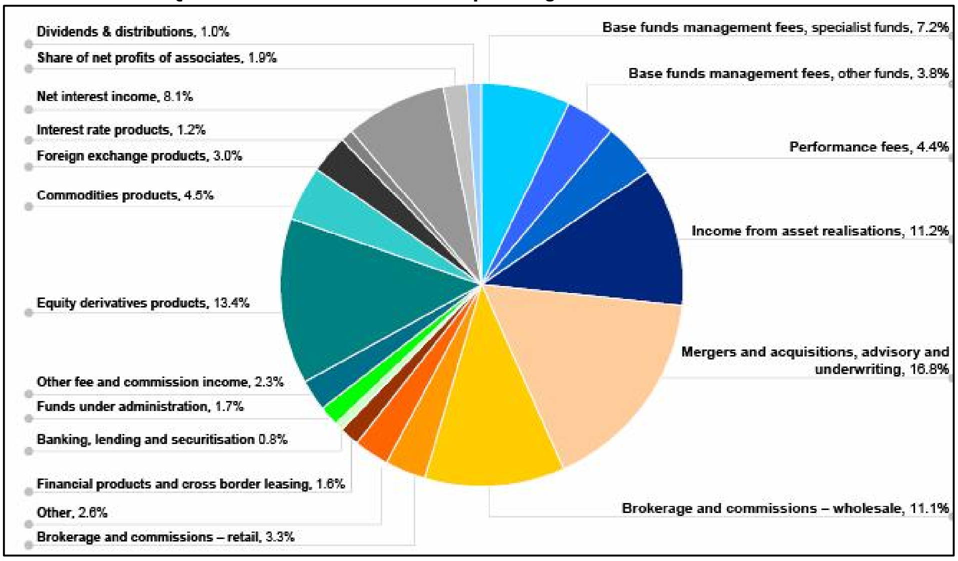
Source: IRESS

While not directly exposed to the US sub-prime fall out in any substance, our domestic financial institutions have come under the microscope in tune with a global trend, as the soaring cost of debt and tougher economic conditions weigh in on investor sentiment. The share price of Macquarie Group (MQG) has been sold off aggressively during periods of volatility, in particular following a sell off of financials on Wall Street. While MQG operates as somewhat unique to the Australian market, it appears as though investors are equating the group to having a similar structure to US investment banks, and as such it gets treated as like for like.

To marry the profile of MQG as closely matching that of the larger US investment banks is not entirely an accurate assumption. First and foremost, MQG has had no direct exposure to sub-prime write-downs, whilst MQG did take a write-down on the value of holdings in some of its listed funds (real estate), MQG current book value for total holdings in related listed funds remains below current market value. MQG also has a diverse range of businesses which reflect some characteristics of a trading bank, an asset manager and what might be traditionally perceived as an investment bank.

Business breakdown

Macquarie is regulated by APRA as the holding company of an Australian bank. It has licensed bank subsidiaries in Australia and the UK, and derives most of its operating income from the provision of products and services to clients. The chart below outlines the various businesses of MQG and their contribution to operating income:



Source: Company Data - UBS Australian Financial Services Conference Presentation

A unique aspect to the Macquarie model is the specialist fund and managed asset agreements that it has in place. The company highlighted at a recent presentation that no more than 20% of operating income is derived from these agreements. MQG has stated that it is generally a long term holder of assets with sales to third parties either exceeding or equal to external director's valuations.

Investment View

Recently our banking analysts factored earnings downgrades into their FY09 forecasts for the Macquarie Group. These changes reflect:

- **Lower M&A growth in FY09 (reduced by 20%)**
- **Reduced asset sales (to $200m from $600m)**
- **Performance fees reduction (to ~$40m from ~$360m)**

Given this negative short term outlook we expect investors are likely to remain cautious on the stock. This, coupled with continued negative offshore news, will see MQG impacted by further short term pressure and volatility.

However, looking at a longer term view, FY10 MQG is expected to see a significant bounce in earnings, aided by current surplus capital of $3.6bn. As such, on a longer term outlook, we see value in MQG and would suggest buying into any short term weakness.

MQG: Investment Arithmetic

	2009E	2010E	2011E
EPS Growth (%)	-13.1	26.4	11.5
PER (x)	8.7	6.9	6.2
Yield (%)	6.4	8.1	9.0

Source: GSJBW Research Estimates

In essence, while there are challenges for MQG in FY09, we see a dramatic improvement to EPS growth going into FY10.

It is also worth highlighting that while FY09 will undoubtedly continue to be tough for businesses that depend on financial markets being buoyant, MQG does have some levers available to reduce its cost base. A reduction in staff expenses, in particular the staff bonus pool, will aide earnings growth and provides a variable cost base, albeit this will not be enough to offset lower recurring revenue in FY09.

Our current Sum of the Parts Valuation is outlined below:

Sum of the Parts

		FY09 Earnings $m	Low Case $m	Current Case $m	High Case $m
Investment Banking	$m	633			
- Multiple applied	x		9.0x	10.0x	11.0x
- Valuation	$m		5,698	6,331	6,964
Traditional Banking	$m	169			
- Multiple applied	x		10.0x	11.0x	11.5x
- Valuation	$m		1,689	1,857	1,942
Asset Management	$m	386			
- Multiple applied	x		14.5x	15.0x	18.0x
- Valuation	$m		5,603	5,797	6,956
Performance Fees	$m	145			
- Multiple applied	x		2.0x	4.0x	4.0x
- Valuation	$m		291	581	581
Asset Sales	$m	123			
- Multiple applied	x		2.0x	4.0x	4.0x
- Valuation	$m		245	490	490
Tax Rate	$m	100			
- Multiple applied	x		1.0x	1.0x	1.0x
- Valuation	$m		100	100	100
Implied FY09 multiple	x		8.5x	9.4x	10.6x
Total Sum-of-the-Parts	$m	1,604	13,626	15,156	17,033
Core business valuation	**$**		**47.30**	**52.60**	**59.10**
Add surplus capital		2,000	6.94	6.94	6.94
Total Valaution			**54.24**	**59.54**	**66.04**

Source: GSJBW Research estimates

Our banking research team have used comparable company ratios to derive the mid case and have adjusted the upper and lower case accordingly. The valuation range sits between $54.24 and $66.04. Note that this valuation is based on sub par 2009 forecast earnings and would rise substantially if our 2010 forecast proves correct. The team has also valued MQG through a DCF model adjusted for asset sales, and performance fees (which are normalised and capitalised in at a multiple of 5x). On this basis MQG looks compelling value with the DCF currently $82.90.

That said we do not believe that in the current market environment MQG will trade in line with its DCF. In fact we believe that given the global risk at present, the market is only likely to factor in 80% of the DCF value which would value the stock at ~$66.30. However, on days of share price weakness (~$45 and below), we would note that the stock looks to have value, especially for those investors with a long term investment horizon.

STOCK RECOMMENDATION SUMMARY			
		Price ($A)	Recommendation
Code	Name	30-Jun-08	
ABC	Adelaide Brighton Limited	$3.75	HOLD
AGK	AGL Energy Limited	$14.30	HOLD
AIO	Asciano Group	$3.47	HOLD
AIX	Australian Infrastructure Fund	$2.22	BUY
AMP	AMP Limited	$6.69	HOLD
ANN	Ansell Limited	$9.26	HOLD
ANZ	Australia and New Zealand Banking Group Limited	$18.72	HOLD
APA	APA Group	$2.61	HOLD
AUB	Austbrokers Holdings Limited	$4.21	BUY
AUN	Austar United Communications Limited	$1.12	BUY
AWC	Alumina Limited	$4.74	BUY
AWE	Australian Worldwide Exploration Limited	$4.16	NR
AXA	AXA Asia Pacific Holdings Limited	$4.68	BUY
BBG	Billabong International Limited	$10.80	HOLD
BBP	Babcock & Brown Power	$0.64	HOLD
BHP	BHP Billiton Limited	$43.70	NR
BJT	Babcock & Brown Japan Property Trust	$0.81	HOLD
BLD	Boral Limited	$5.65	HOLD
BXB	Brambles Limited	$8.73	HOLD
CBA	Commonwealth Bank of Australia	$40.17	SELL
CCL	Coca-Cola Amatil Limited	$7.01	HOLD
CEU	ConnectEast Group	$0.86	BUY
CEY	Centennial Coal Company Limited	$5.60	BUY
CMJ	Consolidated Media Holdings Limited	$3.30	HOLD
COH	Cochlear Limited	$43.65	HOLD
CPA	Commonwealth Property Office Fund	$1.24	SELL
CPU	Computershare Limited	$9.21	HOLD
CSL	CSL Limited	$35.70	HOLD
CSR	CSR Limited	$2.45	HOLD
CTX	Caltex Australia Limited	$13.06	HOLD
DJS	David Jones Limited	$2.81	HOLD
DMP	Domino's Pizza Enterprises Limited	$3.57	BUY
FGL	Foster's Group Limited	$5.07	HOLD
FLX	Felix Resources Limited	$17.00	HOLD
FMG	Fortescue Metals Group Ltd	$11.90	BUY
FXJ	Fairfax Media Limited	$2.93	SELL
HSP	Healthscope Limited	$3.99	BUY
HVN	Harvey Norman Holdings Limited	$3.09	HOLD
ILU	Iluka Resources Limited	$4.71	HOLD
IPL	Incitec Pivot Limited	$185.00	HOLD
JHX	James Hardie Industries N.V.	$4.24	HOLD
LGL	Lihir Gold Limited	$3.29	BUY
LNN	Lion Nathan Limited	$8.55	BUY
MAP	Macquarie Airports	$2.06	HOLD
MCC	MacArthur Coal Limited	$16.87	HOLD
MCG	Macquarie Communications Infrastructure Group	$3.05	BUY
MDT	Macquarie DDR Trust	$0.40	BUY
MQG	Macquarie Group Limited	$48.64	HOLD
MRE	Minara Resources Limited	$3.25	HOLD
NAB	National Australia Bank Limited	$26.50	BUY
NCM	Newcrest Mining Limited	$29.30	BUY
NUF	Nufarm Limited	$15.92	HOLD
ORG	Origin Energy Limited	$16.12	NR
ORI	Orica Limited	$29.30	BUY
OSH	Oil Search Limited	$6.80	BUY
OST	OneSteel Limited	$7.44	HOLD
OXR	Oxiana Limited	$2.63	BUY
PBG	Pacific Brands Limited	$1.78	HOLD
PDN	Paladin Energy Ltd	$6.41	SELL
PLA	Platinum Australia Limited	$3.00	BUY
QAN	Qantas Airways Limited	$3.04	HOLD
QBE	QBE Insurance Group Limited	$22.40	BUY
RHC	Ramsay Health Care Limited	$8.71	HOLD
RIO	RIO Tinto Limited	$135.50	NR
SGB	St George Bank Limited	$27.11	HOLD
SGM	Sims Group Limited	$41.69	HOLD
SGT	Singapore Telecommunications Limited	$2.79	HOLD
SHL	Sonic Healthcare Limited	$14.55	HOLD
STO	Santos Limited	$21.45	HOLD
SUN	Suncorp-Metway Limited	$13.04	HOLD
TAH	TABCORP Holdings Limited	$9.81	HOLD
TEN	Ten Network Holdings Limited	$1.37	SELL
TLS	Telstra Corporation Limited	$4.24	BUY
TOL	Toll Holdings Limited	$6.02	HOLD
TTS	Tatts Group Limited	$2.35	HOLD
VBA	Virgin Blue Holdings Limited	$0.47	HOLD
VPG	Valad Property Group	$0.67	SELL
WBC	Westpac Banking Corporation	$20.00	HOLD
WDC	Westfield Group	$16.28	HOLD
WES	Wesfarmers Limited	$37.30	BUY
WOW	Woolworths Limited	$24.45	HOLD
WPL	Woodside Petroleum Limited	$67.50	BUY

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