

Investment Brief

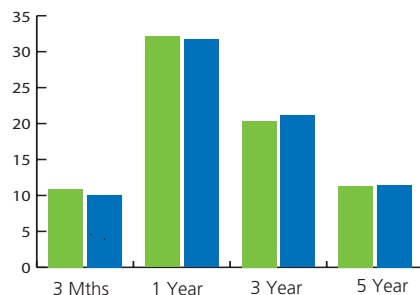
SEPTEMBER QUARTER 2005

Fund Performance

The Australian Equity Fund (fund) continues to perform well with a return of 32.1% after all fees for the year to 30 September 2005 as compared to the Benchmark return of 31.7%. Over the most recent quarter the fund returned 10.9% (Benchmark 10.1%). Relative Fund and Benchmark returns for the past quarter, 1,3, & 5 years are shown in the table below.

Period ending 30 September 2005				
	Qtr (%)	1 Yr (%)	3 Yrs (%)	5 Years (%)
Fund	10.9	32.1	20.4	11.3
Benchmark	10.1	31.7	21.1	11.5
Variance	0.8	0.4	(0.7)	(0.1)

Table 1: Fund performance (after fees) vs S&P/ASX 300 Accumulation Index (no fees included)



Graph 1: MAP AEF performance to 30 September 2005

Market Review

International share markets rose strongly over the September quarter as corporate profits and economic growth continued to impress. This was also a quarter that witnessed more terrorist attacks, this time on the London transport system, significant hurricane damage and economic disruption in the Gulf of Mexico and crude oil surpassing the US\$70 per barrel price level, to name but a few of the low lights of the quarter. In spite of these issues the MSCI World Share Index increased 6.8%, on an unhedged basis, for the quarter. Even so, Australia was not the top global performer for the quarter with, for example, the MSCI Japan Index increasing 19% and MSCI Emerging Markets 17.7%, but with the MSCI US Index only increasing 3.3% (all in A\$ terms).

Over the past year currency movements have caused a substantial difference in the Australian dollar return (in

excess of 7%) between the unhedged (UH) MSCI World Index increase of 12.80% and the local currency (or hedged) return of approximately 19.8%. This significant variance has been due to appreciation of the Australian dollar against the major currencies including the US dollar (+4.9%), Sterling (+7.8%), Yen (+8.6%) and the Euro (+8.6%). On a Trade Weighted Index (TWI) basis the Australian dollar only rose by 0.3% over the recent quarter but rose by a whopping 6.1% over the past year and 8.3% over the past 3 years. This appreciation has the effect of reducing the returns accruing to Australian investors from investing in international markets.

For the period to 30 September 2005 Australian shares are still continuing to strongly outperform international shares (unhedged) over all time periods as shown below.

	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)
Australian Shares	31.7	21.1	11.5	12.9	12.4
International Shares (Unhedged)	12.8	7.5	(6.4)	1.4	7.1
Variance	18.9	13.6	17.9	11.5	5.3

Table 2: Annual Index Returns for Australian/International Sharemarkets.

Source: InTech Performance Survey

Turning to the Australian market for the September quarter, the Resources and Materials sectors were the stand out performers. In our view the main drivers of performance over the September quarter were:

- the continuing strength of oil prices (which started the quarter at about US\$58 and finished at around US\$66, with a spike to over US\$70 in-between);
- general ongoing strength in metal prices with copper up over 15%, aluminium up nearly 10% and zinc up 19%, but with nickel down approximately 9%;
- the absence (largely) of corporate earnings downgrades during the August reporting period
- active capital management (announcements of increased dividends, special dividends, buy-backs etc) by corporates with healthy balance sheets
- an economy that is still growing at a good pace as evidenced by the continuing release of positive economic data and
- large investment and superannuation cash flows into the investment markets

Over the quarter the Reserve Bank of Australia left the official cash rate unchanged at 5.5% while the Federal Reserve (Fed - US Central Bank) increased their rates twice during the quarter, from 3.25% to 3.75%, as they increased their focus on real and potentially rising inflation. US 10 year bonds were sold off slightly over the period (from just over 4% to end at near 4.4%) in the face of continued strength in economic data, inflationary fears and upbeat testimony on growth from the Fed. Australian 10 year bonds followed the lead of US bonds with our yields increasing from 5.07% to 5.45%.

In other topical Australian news during the quarter, the Senate approved the telecommunications bills enabling the Government to proceed with the full sale of Telstra. The bills included provision for 1) \$1.1bn of funding to improve rural services 2) a \$2.0bn Communications Fund dedicated to financing future rural communications infrastructure upgrades and 3) a new regulatory regime which included plans for operational separation of Telstra and new price caps.

Market Outlook

Before the natural disasters of Hurricane Katrina and Rita, the US economy looked to be performing reasonably strongly despite the continued rise in energy prices. The same could be said, in general, for the rest of the global economy with some areas doing better (Japan, China and South East Asia) and even some signs of improvement coming from Europe. This is in spite of the fact that at the end of September oil prices have increased by 53% for calendar year to date.

Following the US hurricanes in the Gulf of Mexico consensus is that the hurricanes should slightly decrease economic growth this year with a catch up next year.

We concur with this expectation but also note that with the US third quarter profit reporting season well advanced, US S&P 500 listed corporates have achieved earnings increases of 12.6% over the previous corresponding period (pcp). US analysts' expectations for this Q3 are now 14% increase over pcp followed by 15% increase for Q4. These are indeed healthy (expected) increases as the average increase over the past 3 decades has been only 7%! In addition to this, over the last 6 or 7 quarters that I can remember actual earnings growth has exceeded analysts expectations. Given these recent past and expected future increases in earnings, valuations remain reasonable. The US economy remains robust and interest rates are still accommodative (at 3.75%) although the Fed is expected to continue increasing short-term interest rates "at a measured pace".

Europe has shown some signs of improvement (their markets were among the top performers for the September quarter) but now has to face a new issue with the no-result in Germany's September election. Government initiatives, which were much needed may now be slow to emerge, although according to reports German firms have announced significant restructurings recently, seemingly not content to wait for Government action. German exports are rocketing thanks to robust global demand and there are even encouraging signs of an improvement in domestic demand.

Prime Minister Koizumi called a snap election in Japan and was returned with an increased majority that should assist him in implementing reform and liberalisation of the Japanese financial system. The economic scenario also looks the most promising it has in recent years. This together with strong forecast earnings growth in 2005 (eg 20% plus projected by Credit Suisse Asset Management) has seen large investment inflows from foreign buyers and outstanding increases in the Japan market index as indicated beforehand.

South East Asian activity hasn't really slowed with China in particular continuing to power ahead.

There are always risks to be faced in investing and we have mentioned many of these in our past briefs. A more recent addition to these previously identified issues is that central banks across the globe are now beginning to sound increasingly hawkish on inflation. How they react to this issue and over what time frame remains to be seen.

The Australian economy remains strong and we expect good ongoing demand growth from our major trading partners. Corporate earnings growth over the past 3 years (compound growth of approximately 12%pa) has been impressive but so has the Index appreciation of near 32% over the past year and 21% pa over the past 3 years. In fact since the market low in March 2003 the S&P/ASX300 Accumulation Index has increased 92%!

Following the 10% increase in the Index in the September quarter we now consider Australian valuations to be full in most industry sectors when compared to the International market valuations. Our Materials sector (eg BHP, RIO, Rinker, CSR etc) trades on a comparable basis to the "Rest of the World" valuation, but I believe we have better earnings growth prospects and so we still see this sector as good value. The same cannot be said of the likes of other sectors such as Energy, Industrials, Consumer Discretionary, Health Care, Financials and Utilities plus a few others.

Even so there can still be selective buying/ investing opportunities within these sectors as one or two outliers can sometimes influence aggregate sector valuation.

We expect our market to continue to be supported by the high dividend yield and franking credits which means for an Australian investor the grossed-up before tax dividend yield of investing in the Australian market is higher than the return from Cash. Further the sustainability of the dividend income over the foreseeable future is good. Superannuation cash flows should continue at high levels and we will soon have a "Future Fund" adding its investment needs to the market. Even so we believe that over the next 12 months it will be much harder to achieve capital gains in the broad Australian market. We still hold and will continue to hold significant investments in the Australian equity market on behalf of our multi-sector superannuation pools. However over the past few months we have gradually reduced our past high Australian weighting in favour of International equities as we see better relative value in some of these markets in the near term future.

Fund Structure

As at the end of the quarter the Fund was invested as follows:

Classification	30.09.05	30.06.05
	Weight (%)	Weight (%)
External Share Managers	65.4	62.3
MAP Direct Shares	34.0	37.2
MAP Direct Cash Holdings	0.6	0.5

Table 3: AEF Fund Structure

Style

The fund uses a diversified group of managers, both by style (value, growth or style neutral) and size (large cap or small cap). As a result in any one-year we expect some managers will outperform and some under perform, with our objective being to achieve consistent out performance from year to year.

At 30 September 2005 total fund investments were spread across in excess of 100 stocks. Details of the top 10 holdings together with aggregate cash holdings, at the end of the quarter and comparative holdings at the end of the prior quarter are:

Stock	30.09.05	30.06.05
	Fund Weight (%)	Fund Weight (%)
BHP	8.3	7.6
National Australia Bank	6.5	6.0
Commonwealth Bank	4.6	5.0
Westpac Bank	4.0	4.0
ANZ Bank	3.9	4.6
Rio Tinto	3.5	3.0
QBE	2.6	2.8
Woodside Petroleum	2.4	2.0
Woolworths	2.0	1.2
Santos	1.7	1.9
Total - Top 10	39.5	38.1
Total Cash	2.8	3.1
TOTAL	42.3	41.2

Table 4: Top ten holdings

The major economic sectors in which your Fund is invested (by Index weight) under the Global Industry Classification Standard (GICS) classification at the end of the quarter are:

Economic Sector	Fund Weight (%)	Index Weight (%)	Variation to Index Weight (%)
Financials (ex Real Estate)	30.0	33.5	(3.5)
Materials	22.5	21.0	1.5
Real Estate	6.5	10.2	(3.7)
Industrials	9.4	8.7	0.7
Consumer Disc	6.6	5.5	1.1
Consumer Staples	5.8	6.7	(0.9)
Telecom Services	2.3	3.5	(1.2)
Energy	6.3	5.2	1.1
Healthcare	3.9	3.5	0.4
Utilities	0.7	1.5	(0.8)
Info Tech	1.1	0.7	0.4
Cash & Other	4.8	0.0	4.8
TOTAL	100.0	100.0	0.0

Table 5: Sector weightings as at 30 September 2005

Fund size as at 30 September 2005 was \$65.8m which includes \$57.3m invested on behalf of MAP's multi sector superannuation, PST and Allocated pension pools and the Australian Equity Pool.

If you would like further information on the MAP Australian Equity Fund, your investments or your financial strategy, please contact one of MAP's Financial Consultants, Sue Winsor or Brendan Tanwan, on (07) 3838 1234 or 1800 640 055 (toll-free outside Brisbane).

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