

Investment Brief

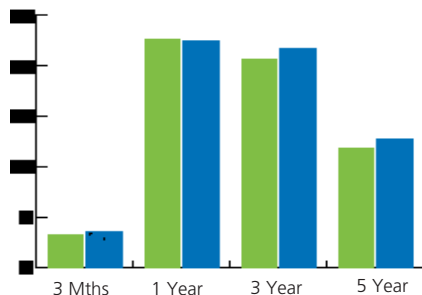
DECEMBER QUARTER 2005

Fund Performance

The fund continues to perform well with a return of 22.6% after all fees for the year to 31 December 2005 compared to the Benchmark return of 22.5%. Over the most recent quarter the fund returned 3.2% (Benchmark 3.5%). Relative Fund and Benchmark returns for the past quarter, 1, 3 & 5 years are shown in the table below.

Period ending 31 December 2005				
	Qtr (%)	1 Yr (%)	3 Yrs (%)	5 Years (%)
Fund	3.2	22.6	20.7	11.9
Benchmark	3.5	22.5	21.7	12.7
Variance	(0.3)	0.1	(1.0)	(0.8)

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



Graph 1: MAP AEF performance to 31 December 2005

Market Review

International share markets rose by 7.4% over the December quarter. This is made up of share price movements in the respective countries as well as movements in currencies between each country and Australia.

Against the major currencies the Australian dollar has moved as follows over the quarter: US dollar (-3.7%); Sterling (-1.3%); Yen (0%); and the Euro (-2.2%). On a Trade Weighted Index (TWI) basis the Australian dollar has fallen by 3.1% over the quarter and by 0.8% over the year. This is in contrast with the average over the past 3 years of an increase in the TWI of 6.6% p.a.

Over the past year currency movements, while volatile, have only caused a small difference in the Australian dollar return of about 1%, as shown by the difference between the unhedged (UH) MSCI World Index increase of 16.8% and the local currency (or hedged) return of 15.6%.

For the period to 31 December 2005 Australian shares continued to strongly outperform international shares (unhedged) over all time periods as shown below. While a significant amount of this outperformance is due to currency movements, the conclusion regarding outperformance by the Australian market is still valid.

	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)
Australian Shares	22.5	21.7	12.7	12.0	12.2
International Shares (Unhedged)	16.8	8.4	(3.6)	0.0	7.1
Variance	5.7	13.3	16.3	12.0	5.1

Table 2: Annual Index Returns for Australian/International Sharemarkets. Source: InTech Performance Survey

Turning to the Australian market, over the December quarter the main themes were further upgrades to resource stocks on the back of increasing gold/metals prices. Copper in particular has been hitting new highs. Zinifex had a great quarter on forecast shortages for zinc (up 51%). Gold stocks were actively pursued for various reasons (hedge against a weak \$US, hedge against inflation, less supply due to lower central bank sales etc) with Lihir Gold and Newcrest up around 15% while Oxiana was even stronger at 30% for the quarter. However coal stocks were generally sold down as investors worried about price negotiations in relation to contracts for the upcoming Japanese financial year (Macarthur Coal and Excel coal down 20% and 19% respectively, Centennial Coal down 23% and Felix Resources down 24%). Other significant quarterly returns were: Flight Centre down 30%; Qantas up 20%; Leightons up 25% and Telstra down 3%.

At the sector level returns were not as varied as usual, with most sectors returning around 4% to 7%. The sectors to avoid were Consumer Discretionary and Telecommunications, both of which returned around negative 2%.

Market Outlook

In making any investment decision, it is necessary to consider the broad investment context (basically, what are the alternatives to investing in the market you're considering, in this case the share market).

Investment context (31 December 2005)

US Bonds (10 year): 4.4%

Australian Bonds (10 year): 5.2%

Australian Cash: 5.5%

At MAP, we have been expecting bond yields to rise for some time now. The significance of this event is that it would put pressure on the valuation of equity markets generally (as a higher yield would be available from bonds, relative to the return from equities) as well as influencing some sectors more than others (eg listed property/infrastructure/bank stocks would be more affected than consumer staples for example).

To date bond yields have remained low as inflation remains well controlled (even in the face of significant rises in input costs) and investors seem content to own bonds that provide only a minimal income yield. Many explanations have been put forward for this scenario but it seems either that there are investors out there (for example China/Japan with large holdings of foreign currencies from trade surpluses) who are prepared to invest them in a non-rational manner. Some talk has emerged of these (and other) countries broadening their holdings of foreign currencies away from US assets,, but to date this has not occurred significantly (if at all).

The trigger for rising US bond yields will generally be increased expectations for future inflation or economic growth. Australian bonds will also be influenced by the factors mentioned above as well as by the yields on US bonds. Rising economic growth or inflation will also generally result in rate increases by central banks (US Federal Reserve in America or the RBA in Australia). The cash rate in the US is currently at 4.25% and the market only expects one or two more quarter percent increases to this rate. Increases above this level could have an effect on the US share market (which would then affect the Australian market). In Australia the current expectation varies between zero and one quarter percent increase for this year.

These issues (when the Fed reaches a neutral position, and what is the outlook for inflation) will be a large influence, along with corporate profits, in determining the direction of share markets (leaving aside terrorist attacks and other unforeseen events). The oil price could also become a determining factor as a result of its effect on both economic growth and inflation.

At the local market level employment continues to be reasonably strong, economic growth is OK (but not spectacular) and business investment continues to take up some of the slack from a slowing household sector. Overall economic growth is expected to be around 3.5% for calendar year 2006 (UBS 30 January 2006). Meanwhile, we are coming into reporting season, which will be important in determining the earnings outlook for the Australian market. To date several profit warnings have emerged (for example Multiplex, Zinifex, Healthscope and Colorado).

Currently the resources (including energy) area of the market is outperforming the overall market while the retail area continues to be an underperformer. The following points will be relevant in determining how long this outperformance lasts for resources stocks:

- the coal and iron ore price settlements currently being negotiated;
- supply/demand outcomes for base metals (China will be very influential here);
- the direction of the price for gold; and
- the oil price (as an input cost).

Retail spending will be influenced by the recent run up in oil/petrol prices, but offset by the expected tax cuts for 1 July 2006 (with the prospect of higher tax cuts on the basis of recent upgrades to expectations for the budget surplus). It seems that households have curtailed spending of late, probably in line with the slowdown in house prices. If another rate rise was to occur this would place additional pressure on retail spending. However employment growth should remain reasonably strong and this should provide a floor for spending.

Following a strong run up in the market for January, it is getting harder to find value. We expect that daily movements will become more volatile as investors become more nervous. In relation to the return for the year, Investment Manager Credit Suisse has a central forecast of negligible capital growth over the full calendar year on the basis of an expectation of slowing corporate profits.

However, if earnings results are stronger than expected the market could continue to rise (and still represent reasonable value). Keep in mind however that forecasting share market returns is a virtually impossible task. While the fundamentals are currently looking a bit fully valued, probably the most accurate advice comes from the now departed American financier JP Morgan when asked for a forecast on the stock market. His normal response was "it will go up or it will go down"!

Fund Structure

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

Classification	31.12.05 Weight (%)	30.09.05 Weight (%)
External Share Managers	64.8	65.4
MAP Direct Shares	34.3	34.0
MAP Direct Cash Holdings	1.0	0.6

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.

In December the fund's small cap manager (CSAM) was replaced by BT following a period of staff changes and underperformance.

At 31 December 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	31.12.05 Fund Weight (%)	30.09.05 Fund Weight (%)
BHP	8.4	8.3
National Australia Bank	6.0	6.5
Commonwealth Bank	5.2	4.6
Westpac Bank	4.3	4.0
ANZ Bank	3.8	3.9
Rio Tinto	4.2	3.5
QBE	2.7	2.6
Woodside Petroleum	2.5	2.4
Woolworths	2.3	2.0
Santos	1.8	1.7
Total - Top 10	41.2	39.5
Total Cash	2.9	2.8
TOTAL	44.1	42.3

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)	29.1	33.9	(4.8)
Materials	23.3	21.4	1.9
Real Estate	6.3	10.4	(4.1)
Industrials	10.8	8.7	2.1
Consumer Disc	6.3	5.2	1.1
Consumer Staples	5.3	6.4	(1.1)
Telecom Services	1.8	3.2	(1.4)
Energy	7.0	5.0	2.0
Healthcare	4.4	3.5	0.9
Utilities	0.7	1.5	(0.8)
Info Tech	0.8	0.8	0.0
Cash & Other	4.2	0.0	4.2
TOTAL	100.0	100.0	0.0

Table 5: Sector weightings as at 31 December 2005

Fund size as at 31 December 2005 was \$66.2m which includes \$58.3m 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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