



# Investment Brief

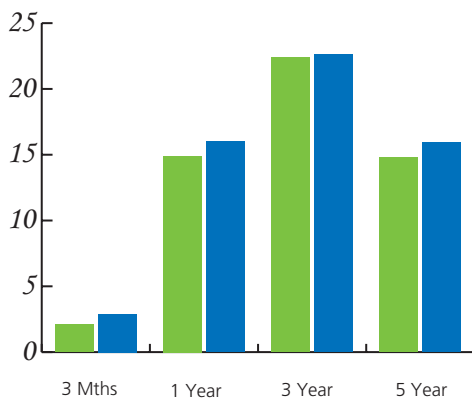
SEPTEMBER QUARTER 2006

## Fund Performance

The fund's rolling twelve month return to 30 September 2006 was 14.9% compared to the Benchmark return of 16.0%. Most of this under performance occurred in the most recent quarter in which the fund returned 2.1% while the Benchmark return was 2.9%. Underperforming the benchmark is disappointing and has primarily arisen due to shorter term underperformance by several of the funds' managers. To address this issue we have recently made some modifications to the portfolio structure, which are detailed below. Relative Fund and Benchmark returns for the past quarter, 1, 3 & 5 years are also shown below.

Period ending 30 September 2006				
	Qtr (%)	1 Yr (%)	3 Yrs (%)	5 Years (%)
Fund	2.1	14.9	22.4	14.8
Benchmark	2.9	16.0	22.6	15.9
Variance	(0.8)	(1.1)	(0.2)	(1.1)

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



Graph 1: MAP AEF performance to 30 September 2006

■ MAP AEF  
■ ASX 300

## Market Review

Over the quarter the market was driven by a move to defensive stocks (eg property trusts and utilities) and away from the cyclical sectors leveraged to economic growth (eg materials and energy). As well, merger and acquisition fever caught on as prices of companies moved significantly in response to real or rumoured activity. For example, takeover offers have recently been made for Coles Myer, Mayne Pharma, DCA Group, Hardman Resources, OAMPS limited, Queensland Gas, Colorado, Adsteam and Excel Coal, to name a few, while Fosters Group and Oxiana moved on the rumour of takeover offers.

Over the quarter the oil price was down 15% to US\$63, copper was roughly flat, silver was up 6% while gold was down 2% (New York prices). Nickel was the standout performer: up 41% (source: London Metal Exchange) on inventory shortages.

At the sector level Utilities (+15%) and Property Trusts (+11%) were the best performing sectors. Materials (-7%) and Energy (-7%) were the worst sectors after being the best performers for a long time. Returns at the stock level varied from BHP (-12%) and Downer (-19%) to Zinifex (+17%) and Qantas (+32%).

For the period to 30 September 2006 Australian shares continued to strongly outperform international shares (unhedged) over all time periods (except one year) as shown below.

	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)
Australian Shares	16.0	22.8	15.8	13.0	12.8
International Shares (Unhedged)	16.9	12.8	1.0	1.1	7.8
Variance	(0.9)	10.0	14.8	11.9	5.0

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

## 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). As at 30 September 2006, the cash & fixed interest alternatives are in the table below. US rates are also shown due to their influence over Australian rates.

	30 Sept 2006	3 Months ago	1 Year ago
US Bonds (10 year)	4.6%	5.1%	4.3%
Australian Bonds (10 year)	5.5%	5.8%	5.4%
Australian Cash	6.0%	5.75%	5.5%
US Cash rates	5.25%	5.0%	3.75%

Table 3: Review of market conditions Source: IRESS, RBA, US Federal Reserve



Bond yields decreased over the quarter as markets started to believe economic growth in the United States (particularly) would be lower than previously expected.

At a local level strength in the employment markets has continued. Combined with inflation concerns this has resulted in a rate rise to 6.25% from the Reserve Bank of Australia ('RBA') on 8th November 2006. This follows the last increase of 0.25% in August.

Merger and acquisition fever didn't stop at the end of the September quarter either, with offers for Promina (from Suncorp) and Rinker (from the Mexican company Cemex) being made following the end of quarter. While the Australian equity market in aggregate is not overvalued, the prices of some companies are being pushed higher than they would otherwise be as a result of corporate activity.

Other news since the end of the quarter includes:

- the announcement of the Telstra sale;
- changes to media ownership laws and the consequent corporate moves with activity from Seven, News corp, PBL and West Australian News to name a few;
- the continuation of the drought which will affect the earnings of many of the agricultural companies (with the AWB having to contend with the Cole inquiry ramifications as well). While agricultural exports will be reduced the national accounts are now finally showing a positive response to high commodity prices and increased export volumes; and
- the effect of the weakness in the (NSW) housing market (for example, the recent profit down grade from Boral). According to Goldman Sachs JBWere, single family housing approvals in Sydney are at 35 year lows. However recent rate rises means that housing approvals may not recover for some time yet.

While we are in the seasonally strongest part of the investment year, the future performance of the market will be driven by:

- the amount of liquidity (ie cash) in the market;
- merger and acquisition activity, which will probably continue to support prices;
- the extent to which company cost increases squeeze margins; and
- the effect on consumer sentiment of interest rate increases, falls in the price of petrol (and whether this continues), and employment levels.

In addition, just over the horizon is the possibility of a new round of tax cuts, as we approach the next election.

## Fund Structure

As at the end of the quarter the Fund was invested as follows (note that the high cash holdings is a temporary outcome of redeeming funds from one of the external managers - see below):

Classification	30.09.06	31.12.05
	Weight (%)	Weight (%)
External Share Managers	56.6	65.5
MAP Direct Shares	31.4	32.2
MAP Direct Cash Holdings	12.0	2.3

Table 4: AEF Fund Structure

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.

Over the quarter we redeemed funds held with UBS and spread these funds over our remaining managers. Over the quarter we also redeemed funds held with our property managers (Legg Mason, UBS and Vanguard) and consolidated these funds with one manager (Principal).

At 30 September 2006 total fund investments were spread across in excess of 200 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	30.09.06	30.06.06
	Fund Weight (%)	Fund Weight (%)
BHP	8.8	9.9
National Australia Bank	6.5	6.2
Commonwealth Bank	5.5	5.2
ANZ Bank	4.8	3.9
Westpac Bank	4.0	4.1
Rio Tinto	2.9	3.5
QBE	2.3	2.6
Woolworths	2.0	2.6
Woodside Petroleum	1.7	2.2
Santos	1.6	1.5
<b>Total - Top 10</b>	<b>40.1</b>	<b>41.7</b>
Total Cash	2.9	3.8
<b>TOTAL</b>	<b>43.0</b>	<b>45.5</b>

Table 5: 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)	30.2	33.5	(3.3)
Materials	22.2	20.5	1.7
Industrials	10.7	8.5	2.2
Energy	5.9	5.0	0.9
Consumer Staples	5.8	6.9	(1.1)
Real Estate	7.4	11.1	(3.7)
Consumer Disc.	6.9	5.6	1.3
Healthcare	3.8	3.5	0.3
Telecom Services	1.2	2.6	(1.4)
Info Tech	1.1	0.7	0.4
Utilities	0.5	2.1	(1.6)
Cash & Other	4.3	0	4.3
TOTAL	100.0	100.0	0.0

Table 6: Sector weightings as at 30 September 2006

Fund size as at 30 September 2006 was \$70.7m which includes \$60.7m invested on behalf of MAP's multi sector superannuation, PST and Allocated pension pools and the Australian Equity Pool.

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