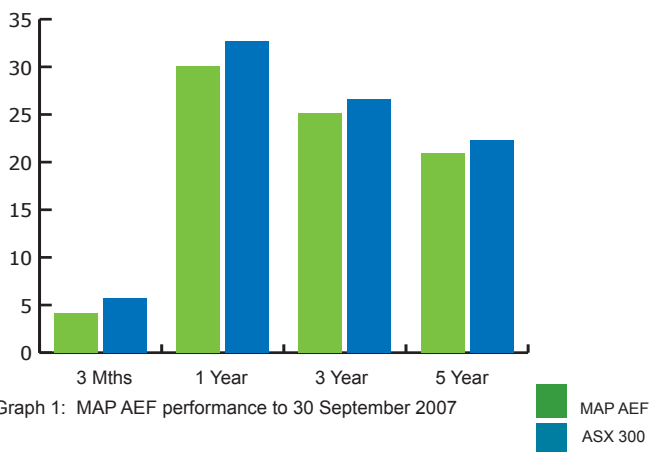


Australian Equity Fund Performance

The fund's rolling twelve month return to 30 September 2007 was 30.1% compared to the Benchmark return of 32.7%. In the most recent quarter the fund returned 4.1% while the Benchmark return was 5.7%. Relative Fund and Benchmark returns for the past quarter, 1, 3 & 5 years are shown in the table below. Recent performance has been affected by a higher than normal level of cash holdings, resulting from our caution in relation to the effects on the share market of the sub-prime mortgage crisis.

Period ending 30 September 2007				
	Qtr (%)	1 Yr (%)	3 Yrs (%)	5 Years (%)
Fund	4.1	30.1	25.1	20.9
Benchmark	5.7	32.7	26.6	22.3
Variance	(1.6)	(1.6)	(1.4)	(1.4)

Table 1: Fund performance (unaudited, after fees) vs S&P/ASX 300 Accumulation Index



Market Review

Over the quarter commodity prices continued to power ahead. The oil price was up 16% to US\$82, while copper rose by 5% (New York prices). Nickel fell 13% over the quarter but is still up by an average of just over 50% p.a. for the last two years and 37% p.a. for the last five years (source: London Metal Exchange/MAP). For the precious metals, silver was up 13% and gold was up 15% (New York prices).

At the sector level Materials (+17%) and Healthcare (+12%) were the best performing sectors. Information Technology (-15%) and Telecoms (-2%) were the worst sectors. Returns at the stock level (ignoring dividends) varied from AWB (-43%) and Tattersall (-15%), to Leighton (+25%) and BHP (+27%).

Over the quarter the AUD rose by 5% against the USD and has now risen by 19% over the year. As we mentioned in the last newsletter, the move in the Australian dollar is also about USD weakness and the 19% rise against the USD for the year compares to a rise of 6% against the Euro and 9% against the British Pound. The 16% rise against the Yen

is principally due to Japan's low interest rate policy. Against the Trade Weighted Index the dollar has increased over the past year by 12%.

For the period to 30 September 2007 Australian shares continued to strongly outperform international shares (unhedged) over all time periods as shown below. Note that currency movements will also have an effect on these relative returns.

	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)
Australian Shares	32.7	26.6	22.3	14.9	13.7
International Shares (Unhedged)	1.4	10.0	7.9	(2.5)	4.7
Variance	31.3	16.6	14.4	17.5	8.7

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

Overall this appeared to be another quarter of similar news: positive returns; strong commodity markets; and the Australia dollar (AUD) increasing in value against the US Dollar (USD) and the Japanese Yen. However, in the middle of this was the initial market reaction to the sub-prime mortgage crisis. By the first half of August the market was actually down by about 13% at its lowest point (intraday) before rebounding by over 20% to the end of the quarter (NB these returns ignore the effect of dividends).

What was the sub prime mortgage crisis? Briefly it involved mortgage lenders in the United States lending money for house purchases to higher risk applicants at low interest rates. Investment banks were demanding more and more of these loans to package up into a portfolio of loans called a Collateralised Debt Obligation (CDO) to on sell to investors seeking investment yields. Other similar products also existed, and many involved further borrowing or leverage to increase the yield to the ultimate holder of the debt obligation.

Moody's (the credit agency) have estimated that 1.7m home loans in the US will be in foreclosure this year and next. The US Treasury Secretary refers to it as the most significant economic risk facing America. The reason this event has affected investment markets is that the re-pricing (ie a sell off) of these debt assets has caused a general sell off in the value of debt instruments across all classes of debt (ie interest rates have increased) causing a sharp liquidity shock where banks would no longer lend to each other due to fear of the corresponding banks potential exposure to sub-prime mortgages and related instruments. Central banks around the world stepped in to provide massive liquidity to keep the wheels of capitalism turning. This sell off and the consequent liquidity event are what caused the general market downturn in July and August. While the market recovered from its initial losses, we believe that the problem has not been resolved, and has potential to get worse, thus our cautious investment stance.

Market Outlook

In making any investment decision, it is necessary to consider the broader investment context to derive a view on relative valuation of one investment versus another. As at 30 September 2007, the cash & fixed interest alternatives were as follows. US rates are also shown due to their influence over Australian rates.

	30 September 2007	3 Months ago	1 Year ago
US Bonds (10 year)	4.6%	5.0%	4.6%
Australian Bonds (10 year)	6.2%	6.25%	5.5%
Australian Cash	6.5%	6.25%	6.0%
US Cash rates	4.75%	5.25%	5.25%

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

Bond yields decreased over the quarter in both Australia (marginally) and the US while cash rates were lifted by 0.25% in Australia (in August) and reduced by 0.5% in the US (in September) as part of the US Federal Reserves' reaction to the US sub prime crisis.

Australian valuations in some sectors of the market remain high. The Price-Earnings ratio for industrial shares is still high at around 18 times FY2008 earnings. In addition, the expected earnings growth outlook for the 2008 financial year has been reduced from around 11% earnings per share growth to around 9%. On the positive side, earnings growth for the following year is expected to be about 11% (industrials) and 16% for the whole market. Finally, the market will also be supported as investors start pricing off the FY2009 expected PE which is a still reasonable 14 times earnings (data source: Macquarie).

The oil price has increased by another \$US5 (8%) since the end of the quarter. Time will tell how much of this is geopolitically related (eg Turkey and Iraq).

On the economic side, the big economic issue is what happens to the US economy as a result of the sub prime mortgage crisis, and how does this translate to the rest of the world? Forced sales of houses into an already over-supplied market could cause a downturn in consumer spending that could, in the worst-case scenario, cause a recession. The question then becomes would this flow through to the rest of the world and, in particular, to our major trading partners? In such an event, Australia's economic growth would be affected, and market sentiment would almost invariably cause a stock market sell off.

On the positive side, China's growth, and that of S.E. Asia, continues at a strong pace, which will provide at least some protection for the Australian economy in the event of an economic slowdown in the US. Election related spending combined with the ongoing strength of the employment market and the economy have even sparked talk of at least one, and possibly two, further interest rate rises in the short term to quell the prospect of rising inflation.

Fund Structure

Over the quarter the amount invested in the MAP direct shares category was reduced for diversification purposes. As at the end of the quarter the Fund was invested as follows:

Classification	30 Sept 07 Weight (%)	31 June 07 Weight (%)
External Share Managers	72.3	68.6
MAP Direct Shares	22.3	29.1
MAP Direct Cash Holdings	5.4	2.3

Table 3: 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.

The review of the Funds' external managers foreshadowed in the previous newsletter has now been completed and as a result, investments previously held with Schroders and Maple-Brown Abbott were redeemed and the following new managers were appointed:

- MIR Investment Management Limited (Australian Equity Fund);
- Mellon Global Investments (Australian Equity Long Short Trust); and
- Platypus Asset Management (Australian Equity Fund).

This new structure fits with our general theme of seeking out niche areas of the market, which are also expected to be lowly correlated with each other to increase the diversification benefits. An investment was also made into BT Financial Group's Wholesale Microcap Opportunities fund. This had previously been deferred due to market volatility resulting from the sub-prime mortgage issue.

In brief, MIR is a quantitative value manager, BT is a value manager (already used for small caps), Platypus is a boutique growth manager while Mellon is a long/short manager with a value style. Long short managers have a net 100% invested in the share market, but they use a different method to achieve this. Conceptually, for each \$100 invested the manager borrows \$30 of stock, sells this and then invests the resulting \$130. The idea being that the manager can use its' knowledge of stocks it doesn't like (by selling them) as well as knowledge of stocks it does like.

At 31 August 2007 total fund investments were spread across in excess of 200 stocks. Details of the top 10 holdings together with aggregate cash holdings are shown below:

Stock	31 Aug 07 Fund Weight (%)	31 May 07 Fund Weight (%)
BHP	9.0	8.4
National Australia Bank	5.2	6.2
Commonwealth Bank	5.9	5.4
QBE	3.7	1.9
Westpac Bank	3.2	3.9
ANZ Bank	3.1	3.7
Rio Tinto	3.1	3.1
Macquarie Bank	2.0	-
Woolworths	1.9	-
Origin Energy	1.7	-
Total - Top 10	38.8	32.7
Total Cash	9.9	1.8
TOTAL	48.7	34.5

Table 4: Top ten holdings & Cash

The economic sectors in which your Fund is invested (by Fund weight) under the Global Industry Classification Standard (GICS) classification at 30 September 2007 are:

Economic Sector	Fund Weight (%)	Index Weight (%)	Variation to Index Weight (%)
Financials (ex Real Estate)	29.4	29.1	0.3
Materials	21.6	20.8	0.8
Industrials	10.2	10.5	(0.3)
Consumer Disc	5.2	5.4	(0.2)
Real Estate	6.6	12.6	(6.0)
Consumer Staples	3.5	8.6	(5.1)
Energy	7.3	4.8	2.5
Healthcare	2.4	2.8	(0.4)
Telecom Services	1.4	3.2	(1.8)
Info Tech	0.6	0.6	0.0
Utilities	0.8	1.6	(0.8)
Cash & Other	11.0	0.0	11.0
TOTAL	100.0	100.0	0.0

Table 5: Sector weightings as at 31 August 2007

Fund size as at 30 September 2007 was \$88.2m which includes \$75.0m invested on behalf of MAP's Domestic Equities, Capital Stable, Balanced and Growth pools in the form of superannuation, PST or Allocated pension pools.

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