

### 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 31 December 2007, the cash & fixed interest alternatives were as follows. US rates are also shown due to their influence over Australian rates.

	31 December 2007	3 Months ago	1 Year ago
US Bonds (10 year)	4.6%	5.0%	4.7%
Australian Bonds (10 year)	6.3%	6.2%	5.9%
Australian Cash	6.75%	6.5%	6.25%
US Cash rates	4.25%	4.75%	5.25%

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

Bond yields decreased over the quarter in the US but rose in Australia reflecting the different expected rates of economic growth and inflation in both countries. These factors were also responsible for cash rates continuing to move in different directions in both countries. Cash rates were lifted by a further 0.25% in Australia and reduced by a further 0.5% in the US in response to the US sub prime crisis. The yield curve continues to be inverse (longer term rates are less than short term rates) in both countries, reflecting expectations of slower future economic growth rates.

While the returns for the December quarter were slightly negative, they have been devastating since then. At the time of writing, equity markets are down nearly 20% just in the current month to date. What started as a sub-prime mortgage debt crisis has spread to a repricing of credit on a global basis. This and other factors (eg lower retail sales) have led to the current fears of US (particularly) and global economic downturns. Finally, analysts' earnings expectations for companies have been revised downwards and this is expected to continue as forecasts are lowered in response to softer economic growth.

On the positive side, central banks virtually around the world are preparing to support markets, whether by decreasing interest rates or by injecting liquidity into markets – witness the US Federal Reserves 'out-of-meeting' decrease in rates of 0.75% on 22 January. In addition, the US government is considering various economic stimulation packages as well as support schemes for home owners caught up in the sub-prime mortgage crisis.

The Australian economy continues to perform well with employment remaining strong. The resources sector should continue to receive support from the major growth economies of China and India and the consumer will receive a boost from the next round of tax cuts (due from

1 July 2008). However housing markets continue to struggle in terms of construction of new dwellings. It appears that this will remain so until rents rise enough to encourage investors and/or housing affordability improves. House prices though have shown a general increase in most states.

Companies will begin reporting their financial results in late January and early February and this should help dispel some of the negative sentiment in the market. Individually and in aggregate, valuations have improved dramatically and, even allowing for the earnings revisions referred to above, are the cheapest they have been for some time. The Price-Earnings ratio for the market is now around 13 \* FY2008 earnings (source: UBS, 23 January 2008).

Inflation remains at the high end of the RBA's target for inflation and as such expectations of further interest rates increases remain high. While the economy has so far remained impervious to recent RBA rate rises and higher oil prices, independent rate increases by the major banks during January, continuing concerns of the global economic outlook and increasing volatility in the stock market, have the potential to keep the RBA on hold in the short term.

Overall, we expect market volatility to remain high, but the sell off has now started to provide value in the market.

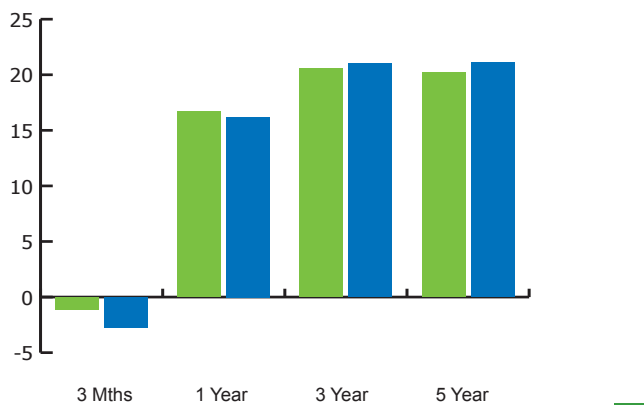
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### Australian Equity Fund Performance

The fund's rolling twelve month return to 31 December 2007 was 16.7% compared to the Benchmark return of 16.2%. In the most recent quarter the fund returned (1.1)% while the Benchmark return was (2.7)%. Relative Fund and Benchmark returns for the past quarter, 1, 3 & 5 years are shown in the table below. Recent performance has benefitted from a higher than normal level of cash holdings, resulting from our caution in relation to the sub-prime mortgage crisis. For the previous quarter this cash holding hurt our performance, so it is good to see an overall benefit from this decision.

	Period ending 31 December 2007			
	Qtr (%)	1 Yr (%)	3 Yrs (%)	5 Years (%)
Fund	(1.1)	16.7	20.6	20.2
Benchmark	(2.7)	16.2	21.0	21.1
Variance	1.6	0.5	(0.4)	(0.9)

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



Graph 1: MAP AEF performance to 31 December 2007

MAP AEF  
ASX 300

## Market Review

Over the quarter commodity price performance was mixed with oil up by 17% but Nickel down by the same amount. In the soft commodities, wheat was up nearly 80% for the year.

	Quarter	Year	Source
Oil	17%	58%	New York
Copper	(16%)	6%	New York
Nickel	(17%)	(25%)	LME*
Silver	7%	15%	New York
Gold	12%	31%	New York

\*London Metals Exchange

Over the quarter the AUD dropped by 1% against the USD and has now risen by 11% over the year. Against the Trade Weighted Index the dollar has increased over the past year by 6%.

At the sector level Consumer Staples (+7%) and Telecoms (+8%) were the best performing sectors. Property Trusts (-13%) and Utilities (-7%) were the worst sectors. Returns at the stock level (ignoring dividends) varied from Brambles (-22%) and Aristcrat (-19%), to Incitec Pivot (+38%) and Newcrest Mining (+18%). Of course the most discussed returns would probably be those of Centro Properties Group (-86%) and Centro Retail Group (-42%). Excessive debt levels, inaccurate disclosure and an opaque structure were brought undone by a failure to achieve refinancing of some of the companies debt. This outcome is indicative of a general market trend where companies with high debt levels are being sold off, in some cases fairly indiscriminately.

## Fund Structure

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

Classification	31 Dec 07 Weight (%)	30 Sept 07 Weight (%)
External Share Managers	72.9	72.3
MAP Direct Shares	21.2	22.3
MAP Direct Cash Holdings	5.9	5.4

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.

At 30 November 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 Nov 07 Fund Weight (%)	31 Sept 07 Fund Weight (%)
BHP	11.3	9.0
Commonwealth Bank	5.9	5.9
National Australia Bank	4.3	5.2
Rio Tinto	5.8	3.1
ANZ Bank	4.0	3.1
QBE	3.0	3.7
Westpac Bank	2.3	3.2
Woolworths	2.1	1.9
Woodside	1.8	1.5
Macquarie Bank	1.5	2.0
<b>Total - Top 10</b>	<b>42.0</b>	<b>38.6</b>
Total Cash	7.5	9.9
<b>TOTAL</b>	<b>49.5</b>	<b>48.5</b>

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 November 2007 are:

Economic Sector	Fund Weight (%)	Index Weight (%)	Variation to Index Weight (%)
Financials (ex Real Estate)	26.8	31.5	(4.7)
Materials	25.2	21.9	3.3
Industrials	10.1	8.8	1.3
Energy	6.7	5.1	1.6
Real Estate	6.6	11.4	(4.8)
Consumer Disc	5.1	5.2	(0.1)
Consumer Staples	3.4	7.2	(3.8)
Healthcare	2.4	2.8	(0.4)
Telecom Services	1.7	4.1	(2.4)
Info Tech	0.6	0.7	(0.1)
Utilities	0.6	1.5	(0.9)
Cash & Other	11.0	0.0	11.0
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>

Table 5: Sector weightings as at 30 November 2007

Fund size as at 31 December 2007 was \$87.3m which includes \$74.1m 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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