

your FINANCIAL WEALTH

A regular check up on your investments for a healthy future

August 2009

Changes to MAP Super and Pension Investment Pools

When you invest your super or pension with MAP Funds Management (MAP), you have the choice of seven investment options, comprising four single-asset pools and three multi-asset pools. Each pool is designed to provide you with a different mix of investments so you can choose an option that complements your tolerance to risk and your investment goals as well as taking into account other investments including non-superannuation investments.

You can choose where your funds are invested or choose not to make an investment choice. If you choose not to make a choice, your funds are invested in the MAP Balanced Pool by default.

As the Trustee of the MAP Superannuation Plan, MAP Pension Plan and MAP Pooled Superannuation Trust, MAP is responsible for the investment management process. In recent months, the investment management team and the investment management committee (a sub-committee of the MAP Board in place to formally monitor adherence to the investment strategy for each pool) have reviewed and discussed the structure of the pools. This review has been undertaken in response to the financial and economic events of the last two years and the impact this has had on the absolute and peer relative performance of the MAP investment pools.

The outcomes from this review have been to:

- Increase diversification of the multi-asset pools by allowing for a greater exposure to assets other than traditional equities and listed property. These assets include infrastructure, private equity, hedge funds and unlisted assets such as property.
- Increase the investment ranges to allow for greater flexibility in managing each pool.
- At the single-asset class level, more focus will be placed on returns after fees, reduction in the volatility of returns and recognition, in some instances, of the changing structure of some asset classes given financial market events. For example, in diversified property, Australian listed property is even more concentrated following the turmoil experienced in that sector. As such the risk/reward for that sector has changed warranting a review of whether a higher global focus should be considered in diversified property.

In addition, we have introduced an Alternative Assets asset class. Alternative assets typically have low correlations to other traditional asset classes and therefore help reduce portfolio risk. The various strategies in this asset class are:

Hedge Fund Strategies

Hedge fund strategies can act as return enhancers within a portfolio while other hedge fund strategies have lower volatility and can be used to reduce overall portfolio volatility. Hedge fund strategies that are return enhancers can be used as a substitute for a portion of the equity holdings in a portfolio and low volatility strategies can be used as a substitute for a portion of fixed-income or cash.

Global Private Equity

Private equity funds generally make investments in private companies where excess returns are generated through managerial guidance to improve performance or financial strength of the entity. Investments can be made in listed private equity firms or in unlisted private equity investments which tend to be illiquid and require a long time horizon for returns to materialise. Listed private equity can give exposure to excess returns however will tend to be more volatile than unlisted private equity.

Global Infrastructure

Infrastructure investments can be structured as either debt or equity investments in assets that provide essential services (eg transport, communication networks, power supply). Risks and returns of these investments are typically correlated to the cash flow cycle as the project moves from initiation to maturation. The infrastructure risk/return trade-off is often quantified via a return over inflation. Like private equity, investments can be listed or unlisted.

Implementation of this asset class will provide the flexibility to invest in alternative assets should we perceive, at some time in the future, that this offers a better risk/reward trade-off than traditional assets such as cash and equities. MAP is currently invested in hedge funds and infrastructure.

As a result of this review, investment ranges for the pools have been revised and will be implemented in the coming weeks. The new investment ranges are outlined in the table below.

If you require further information regarding these changes, please contact Henry McGhee, MAP's Business Development Manager on 07 3838 1234 or 1800 640 055.

New Investment Ranges

POOL	ASSET CLASS					
	Cash	Diversified Fixed Interest	Australian Equities	International Equities	Diversified Property	Alternative Assets
Cash Pool	100					
Property Pool	0 – 10				90 – 100	
Australian Equity Pool	0 – 10		90 – 100			
International Equity Pool	0 – 10			90 – 100		
Capital Stable Pool	15 – 50	15 – 50	0 – 25	0 – 25	0 – 15	0 – 15
Balanced Pool	0 – 20	5 – 40	15 – 50	15 – 50	0 – 20	0 – 25
Growth Pool	0 – 20	0 – 20	10 – 50	10 – 50	0 – 30	0 – 30

In addition to the above, the 20% minimum limit on Australian listed property within the Diversified Property Pool has been removed.

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Changes to Income Test Rules

From 1 July 2009, new tax laws have resulted in changes to the way the ATO works out your income for some government benefits.

How the changes affect super

As part of the changes, reportable super contributions will be added to the current income tests and as a result, some MAP Superannuation members may no longer qualify for certain benefits.

Changes associated with the income test mean that salary sacrificed contributions will be included when assessing your eligibility for government funded benefits including:

- Deductions for personal superannuation contributions
- Spouse superannuation contributions tax offset
- Government super co-contribution

Considerations for members

If you are self employed or substantially self employed, where less than 10% of your total assessable income is from employment (known as the personal exertion rule), you can usually make tax-deductible contributions for yourself, claiming a deduction for the full amount contributed in a financial year. Whilst the personal exertion rule still exists, the measurement method has changed. Salary sacrifice contributions will now be included in your income for tax purposes meaning you cannot salary sacrifice into qualifying as self employed from 1 July 2009.

The changes may also affect your eligibility to receive the Spouse Superannuation Contributions Tax Offset as your spouse's salary sacrifice contributions will be included in their income for tax purposes from 1 July 2009.

The changes may also affect your eligibility for the Government Super Co-Contribution as your salary sacrifice contributions will be included in your income for tax purposes from 1 July 2009.

MAP Investment Update

“Over the past few months there have been signs of green shoots in the global economy.”



Outlook

Improved sentiment surrounding the financial sectors and signs of increased demand in credit markets have been positive developments this quarter. These, combined with responses to monetary and fiscal policies, should continue to boost confidence in financial markets. We believe that restoration of confidence is the key to a sustained economic recovery, and will assist in repairing financial markets.

In June we witnessed a solid performance by world equity markets. For the domestic market the pace of earnings downgrades slowed towards the end of the fiscal year and the very low starting point for earnings has meant that any cuts to financial year 2010 forecasts have been small. Earnings headwinds are likely to re-emerge as a focus heading into the August reporting season, but expectations have already been lowered significantly and the headwinds are largely discounted. It is likely that any positive earnings surprise or any hint of upbeat forecast commentary associated with a result will attract significant market outperformance.

Key Economic Highlights

In June, domestic economic news continued to allay investor concerns over a possible economic contraction in the second half of the year. The release of the national accounts showed a 0.4% quarterly rise in GDP, which helped to avoid confirmation of a technical recession. Domestic demand conditions also signalled an improvement in fundamentals; with retail sales (+0.2%) showing a mild rise and consumer confidence, as measured by the Westpac-Melbourne Institute Survey, recording its largest monthly jump in 22 years with a 12.7% rise.

The International Monetary Fund (IMF),

World Bank and Organisation for Economic Cooperation and Development (OECD) all made changes to economic growth forecasts in June. The IMF upgraded its outlook for the Australian economy in 2009, with economic growth revised from -1.4% to -0.5%. Strong commodity exports, a flexible exchange rate, a strong banking sector and aggressive, early policy response led to the improved outlook.

We recognise that whilst recent economic data has been encouraging, signs of weakness in the US economy remain, with the unemployment rate standing at 9.4% at the end of May. Since the global financial crisis began, about seven million people have become unemployed, making a total of about 14 million people unemployed in the US. Unemployment rates stand at 7.2% in the UK, 9.2% in Europe (including 17.4% in Spain), 5.2% in Japan and 5.7% in Australia. High unemployment and low capacity utilisation will reduce the speed at which economies will recover.

Whilst the positive news and recent market strength is welcome, we believe that patience is required, and those that selectively allocate their funds in the short term will benefit over the long term.

Cash & Fixed Interest

Australia's official interest rates remained unchanged during the month, which was largely anticipated by the market. In leaving interest rates on hold, the Reserve Bank of Australia (RBA) noted improving confidence levels, evidence that the global economy was stabilising and better conditions in financial markets. The market appears to have formed a view from these comments that the interest rate cycle has bottomed at 3% and the next move in interest rates will be an increase early next year.

LIBOR (London Interbank Offered Rate), the interest rate at which banks borrow and lend from each other, continued to fall from its peak in October 2008. This is a further sign that markets are comfortable that the worst of the financial markets crisis has now passed. This in turn has seen global credit markets reflect the increased risk appetite and reduction in the liquidity premium on physical credit securities. This has led to strong outperformance in credit markets and we will continue to have exposure to these markets.

Global Equities

The major global equity markets were mixed in June. The Dow Jones Industrial Average was down 0.6%; the S&P 500 Index was flat, while the NASDAQ was up 3.4%. Since its bottom on 9 March 2009, the Dow rallied 29.0% to the end of June. Over 12 months the Dow is down 25.6%.

Over the past few months there have been signs of 'green shoots' in the global economy, leading to a rally in share markets. The start of June looked promising, however global equity and commodity prices were dragged down by the announcement of a downgrade to world growth expectations by the World Bank, whereby it now expects the global economy to contract by 2.9% this year, sparking a rotation in world markets back into defensive assets.

Despite this forecast, we continue to favour investment in global equities. We believe that global equities on a risk-adjusted basis currently offer greater value relative to domestic equities and we have maintained an overweight position in all portfolios.

Australian Equities

The Australian equity market continued to rebound from the lows reached in March, with the S&P/ASX300 Accumulation Index rising in June (up 4.0%) for the fourth consecutive month. The Index finished the quarter up 11.5%; it's first quarterly gain since September 2007. However, this quarterly rise was not enough to prevent the Index from suffering its largest financial year decline in 25 years (down 20.3%).

All major sectors with the exception of the Utilities (-2.4%) sector recorded gains over the month with market performance driven by the Financials (+7.1%), Health Care (+8.1%) and Telecommunications Services (+8.6%) sectors. The Materials sector was adversely impacted by the Rio Tinto rights issue which dragged the sector lower despite base metals prices rallying 13.6% (CRB Metals Index). We currently hold a neutral allocation to Australian equities.

Diversified Property

The Listed Property sector rose for the second consecutive month in June, rising 4.6%.

During the month the sector saw a continuation of capital raisings (at a slowing rate) and asset sales, which has resulted in

reduced gearing levels and lower refinance risk. The sector has also seen significant dividend cuts and downward revaluations to assets as part of the capital raising process. A continued improvement in capital market sentiment saw capital constrained real estate investment trusts outperform defensives. We continue to favour global listed property trusts over domestic listed trusts.

Portfolio Management

Our portfolio management team are closely monitoring the performance of our underlying managers in each asset class. We will continue to position the portfolio looking at opportunities to lower investment management fees and add / remove managers where appropriate.



Table 1: MAP Superannuation Plan Returns to 30 June 2009

POOLS	% PA 10 YEARS	% PA 7 YEARS	% PA 5 YEARS	% PA 3 YEARS	% PA 1 YEARS
AUSTRALIAN EQUITIES					
MAP	n/a*	n/a*	6.7	(3.3)	(19.4)
MARKET	n/a*	n/a*	6.2	(3.6)	(17.2)
VARIANCE	n/a*	n/a*	0.5	0.3	(2.2)
INTERNATIONAL EQUITIES					
MAP	n/a*	n/a*	(1.6)	(8.4)	(15.0)
MARKET	n/a*	n/a*	(3.4)	(10.7)	(19.5)
VARIANCE	n/a*	n/a*	1.8	2.3	4.5
DIVERSIFIED PROPERTY					
MAP	n/a*	n/a*	(5.2)	(17.6)	(36.3)
MARKET	n/a*	n/a*	(6.1)	(17.3)	(34.5)
VARIANCE	n/a*	n/a*	0.9	(0.3)	(1.8)
CASH					
MAP	4.7	4.7	4.9	4.7	3.5
MARKET	4.8	4.6	4.6	4.7	4.0
VARIANCE	(0.1)	0.1	0.3	0.0	(0.5)
BALANCED					
MAP	4.0	3.7	3.1	(3.7)	(13.7)
MARKET	4.9	4.7	2.8	(3.2)	(12.2)
VARIANCE	(0.9)	(1.0)	0.3	(0.5)	(1.5)
CAPITAL STABLE					
MAP	4.4	4.1	3.6	0.4	(5.4)
MARKET	4.8	5.0	3.6	0.7	(4.2)
VARIANCE	(0.4)	(0.9)	0.0	(0.3)	(1.2)
GROWTH					
MAP	3.7	3.7	3.3	(5.4)	(17.6)
MARKET	4.8	4.7	2.5	(5.1)	(16.8)
VARIANCE	(1.1)	(1.0)	0.8	(0.3)	(0.8)

- * Pool opened for investment from 1 March 2004.
- 'Market' is taken from the median manager performance from the Selecting Super surveys.
- Returns are compound annualised averages net of all investment and administration fees.
- The returns quoted above are subject to audit.
- Past performance should not be relied upon as an indication of future returns. The actual returns will be determined by the investment strategy adopted and prevailing market conditions



MAP Financial Planning Update

Are You Prepared for the Unexpected?

A lack of life insurance among the 173 victims of Victoria's Black Saturday bushfires is even worse than the estimated 30% who had no property insurance. According to industry sources, just 30 of the victims (17%) had life cover and approximately \$5,000,000 in total has been paid out. This may sound a lot but only equates to \$167,000 per claim and when you consider that the average mortgage in Australia is around \$300,000 it would suggest many bereaved families will suffer undue financial and emotional hardship.

In life we never know when tragedy or misfortune may strike us. Hopefully it never will, yet a survey by the Investment and Financial Services Association (IFSA) members found that over \$6,000,000 a day in life insurance claims alone was paid in the 2008 calendar year. During 2007, the common causes of Life Cover claims paid by Asteron under their various policies were as follows:

Cancer	49%
Accidents	16%
Diseases of the circulatory system (eg heart disease)	5%
Diseases of the digestive system (eg liver failure)	4%
Other (eg Chronic Pneumonia)	12%

You may be able to hold your life insurance inside super – meaning you can pay your premiums out of pre-tax dollars. This won't necessarily make your premiums any lower, but it could mean an effective saving of up to 46.5% (the top marginal tax bracket including the Medicare Levy) when you consider the tax you would normally be paying on that income.

There are often restrictions associated with holding life cover in super – particularly when it comes to taxation and how your beneficiaries receive the benefit. So talk to your MAP Financial Planner before you make a decision.

Of course not all accidents, illnesses etc are fatal and to protect your own or your family's financial safety during and after recovery other insurance options are required. These can include Total and Permanent

Disablement (TPD) cover that pays a lump sum and can be used to pay out debts and bills and create ongoing income. It can also be used to fund disability related expenses, such as home modifications and special medical needs. Please note if TPD is through a superannuation fund then preservation requirements may apply.

Recovery products (also known as Trauma Insurance) are targeted at a specific range of medical conditions and pay a lump sum upon diagnosis. This can be used to help reduce debt, pay medical expenses and fund more relaxation time whilst recovering.

Income Protection is designed to pay you up to 80% of your gross monthly income while you are unable to work due to sickness or injury and if you are Self Employed and become sick or injured, you may need to protect more than just your personal income. Business Expenses allows you to insure business expenses on a monthly reimbursement basis, to help keep your business viable until you return to work.

MAP Financial Planners are able to assist you with all aspects of your personal insurance needs.

Is it time to re-enter the market?

The Australian Stock market has increased in value by over 40% since early March this year and has signalled a change in market sentiment with some stability and confidence returning to the markets.

Whilst many commentators indicate that we are not out of the woods yet, holding a large amount of cash with low interest rates may not be the best option. The old adage "it is the time in the market not the timing of the market" applies and whilst we cannot say that now is the best time to re-enter the market, consideration should be given to at least some gradual return to the market or risk missing the boat completely.

Investing in the markets should be viewed as a long term strategy of a minimum seven years to smooth out short term volatility. MAP Financial Planners are able to assist with investing both personal and superannuation assets. If you need assistance with your investments, please contact a MAP Financial Planner on 07 3838 1237.

SMSF Liquidity

As Trustee of a Self Managed Super Fund (SMSF), maintaining liquidity within the Fund is also important to ensure you are prepared for the unexpected.

The ATO requires Trustees to prepare and implement an Investment Strategy for their Fund and to regularly review it. The strategy needs to ensure appropriate diversification of assets (eg shares, fixed interest, property), the ability of the Fund to pay benefits to members and consider the age and retirement needs of the members.

A mistake many Trustees make is in allocating a very large percentage to assets that are non-liquid such as direct property or investments that cannot be redeemed for long periods of time. This can create a problem if a member dies and a death benefit is required to be paid to a beneficiary or there is a marital break-up and a member needs to exit the fund.

Another mistake is not having enough cash flow to ensure pensions can be paid to the member each year. Investments returning low yields combined with low liquidity options are a recipe for disaster.

The ATO has announced there will be a greater number of audits on SMSF's. Reviewing a SMSF's Investment Strategy and how this aligns to the needs of the members is a likely target. So if you have a SMSF and need help, contact Lylia Taylor or Sue Winsor at MAP Financial Planning. Both Lylia and Sue have extensive experience in SMSF's and Lylia is a member of SPAA (Self-managed Super Fund Professionals' Association of Australia).



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