

# your FINANCIAL WEALTH

A regular check up on your investments for a healthy future

November 2009

## The Aussie Dollar

The Australian Dollar (\$) plays an important role in balancing growth and inflation. Australia is a relatively small economy on a global scale, yet we have one of the most actively traded currencies. Movements in the \$A are affected by both supply and demand and by the activities of currency traders and investment managers.

### Economic Impacts

The \$A can help stabilise domestic growth and inflation. In the South East Asian crisis of 1997, the \$A depreciated relative to other currencies. This depreciation had a positive impact on the competitiveness of our exports. It also made a significant contribution to stabilising and maintaining growth in our economy when domestic demand in our major trading partners, Japan and China, weakened.

The \$A also impacts the price we receive and pay for goods and services. When the \$A appreciates, the price of imports falls relative to our domestic goods and services, while at the same time making our exports less attractive. Generally, domestic manufacturing sectors are adversely affected. However, a strong \$A may indicate a strong global economy and strong demand, in which case export volumes may remain strong.

Put simply, when the \$A appreciates in value, import prices generally go down. This is good news for consumers looking to buy electronics and other imported items. However, the full impact on the price of consumer goods is influenced by how much of the benefit from an appreciating A\$ is actually passed on to consumers through price reductions.

Movements in exchange rates can act as a defacto in monetary tightening by reducing the short term impacts on inflation. This is due to lower import prices and lower export growth. This means that the Reserve Bank of Australia (RBA) does not have to raise interest rates as aggressively in order to dampen inflation, inflation expectations or growth.

### Portfolio management

MAP hedges 35% of our international equity exposure whereas the broader market generally hedges closer to 50%, benefiting when the \$A falls and being somewhat protected when the \$A rises. MAP hedges



slightly less to ensure sufficient liquidity is available to meet hedging costs in the event of a significant fall in the \$A. It is worth considering the environment of September and October when the \$A fell 30%. If you were hedged 50% with international investments of A\$5bn, your hedging costs required an immediate \$1.5bn to meet obligations and in many cases forced selling was required.

In recent times global equity markets and the \$A have moved in tandem. When the global outlook shows signs of recovery, global equity markets rally and so too does the \$A, reflecting the benefits to commodity prices and our major trading partners. In doing so, this effectively reduces portfolio diversification options. For example, an upward movement in international equity markets may be largely cancelled out by a corresponding movement in the \$A.

### Investment Analysis

The current economic weakness in the US economy and the measures taken to restore stability including unprecedented government borrowing and increasing money supply by printing more \$US, has resulted in an enormous amount of \$US liquidity in the global economy. The consensus is that US\$ weakness over the long term is inevitable and will most likely be against emerging economies' exchange rates such as China, Brazil and India. In this environment the A\$ "goes along for the ride" as we are heavily linked to these emerging economies.

Australian ASX listed entities derive 40% of earnings offshore. By definition therefore, movements in the \$A have an impact on the outlook from Australian equities. For example, analyst earnings forecasts for commodity based Australian equities could be revised down because they assume growth in commodity prices in excess of \$A impacts.

## HOT OFF THE PRESS

### Ripoll Inquiry releases recommendations

The Ripoll inquiry was established in early 2009 to inquire into issues associated with recent financial services company collapses such as Opes Prime, Storm Financial and MFS. After nine months of investigations the Ripoll Inquiry released a number of recommendations to Parliament on 23 November including:

- That the Corporations Act be amended to explicitly include a fiduciary duty for financial advisers operating under an AFSL, requiring them to place their clients' interests ahead of their own\*.
- That the Government consult with and support industry in developing the most appropriate mechanism by which to cease payments from product manufacturers to financial advisers.
- That the Government consider the implications of making the cost of financial advice tax deductible for consumers as part of its response to the Treasury review into the tax system.
- That the Corporations Act be amended to provide extended powers for ASIC to ban individuals from the financial services industry.
- That, as part of their licence conditions, agribusiness MIS licensees demonstrate they have sufficient working capital to meet current obligations.
- That ASIC develop and deliver more effective education activities targeted to groups who are likely to be seeking financial advice for the first time.

The government has indicated that it will respond to the recommendations next year.

\* The Financial Planning Association (FPA) has always held that its members place their client's interests ahead of their own. MAP Financial Planners are authorised by HeritageMAP Pty Ltd, a Principal member of the FPA.

## This Issue

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## Need super or pension advice?

Under new regulations, MAP Funds Management can now provide you with free personal advice on your MAP Superannuation and Pension Plan investments without the formality and cost of a full financial plan\*.

### What does this mean for me?

Some members find superannuation to be a daunting topic, especially when they don't fully understand the superannuation system or investments in general. You can be assured that by speaking to one of our representatives, your MAP Superannuation or MAP Pension is invested in the investment pool which is most suitable for your needs and that you have the appropriate levels of insurance.

### What can I be advised on?

- Which investment pool is best suited to my needs?
- Am I in the best option for my current circumstances?
- Should I switch between pools?
- Do I have enough insurance?
- How do I increase my level of cover?
- How much should I contribute to Superannuation this year?
- Is it appropriate for me to put more money into Superannuation?
- Do I qualify for the Government Co-contribution?

### How much will this advice cost me?

As a MAP member, you can access this service free of charge. We pride ourselves on our member service and feel that this is an important benefit to pass on to our members.

### How do I access this service?

Contact our office on (07) 3838 1234 to arrange a time to talk to a MAP representative.

\* For advice outside of the fund, a full financial plan is required.

# MAP Investment Update

## Outlook

Following six months of solid gains across all asset classes, financial markets took a breather in October with most asset classes incurring their first monthly loss since March.

As the markets digest the events of 2009, attention now turns to the outlook for growth, inflation, earnings, fiscal and monetary policy in 2010. The unprecedented fiscal and monetary policy measures implemented globally have to be turned off at some stage and markets are currently digesting the potential impacts. During the last six months, MAP has reduced its exposure to equity and credit markets and increased diversification across other asset classes to better adapt to financial markets events as 2010 unfolds.

### Cash & Fixed Interest

Australia's official interest rate is currently 3.5%. The Reserve Bank of Australia (RBA) was the first amongst global central banks to raise interest rates noting that 3% was an emergency rate and could not be sustained. Given the strength in the Australian economy relative to our peers, interest rates are expected to increase to around 4.5% by the middle of 2010. We are taking advantage of this by investing term deposits in the range of just over 5%, maintaining a duration of around 40 days to take advantage of higher rates as they become available.

Globally, interest rates in the major economies are expected to remain on hold and interest rates in the US are expected to remain at zero until September 2010. The 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 has led to strong outperformance in credit markets. As such we have reduced our exposure to credit as the outlook for the global economy remains uncertain, and potential default risk still remains high.

### Global Equities

Global equity markets have continued their strong rebound from the lows of early March, fuelled by highly accommodative fiscal and monetary policy. The key drivers remained cheapness and pro-cyclicality, which was evident at stock level by strong gains in more volatile companies with high market sensitivity (i.e. beta). At a broader level emerging markets, materials, industrials, small and mid cap stocks as well as financials were the clear leaders whilst more defensive sectors such as utilities,

healthcare, staples and telecoms were the standout laggards. Japanese stocks were also notable in their underperformance with the overall market generally lagging behind global stocks by as much as 10%.

MAP maintains a neutral weight relative to the market in our positions in emerging markets and small companies. We are currently underweight international equities due to the continued strength in the \$A, thereby reducing local currency gains. The \$A continues to benefit from \$US weakness and our interest rate cycle favours the \$A over most developed economy exchange rates.

### Australian Equities

The Australian equity market continued its strong performance from the March lows and investor focus has been on reporting season and interpreting the significant amount of data provided over the period. Despite the absolute decline, earnings generally came in ahead of expectations with no material negatives emerging. Investor sentiment continued to shift to sectors and stocks leveraged to the improving domestic and global macro environment.

The strength of economic data continued to surprise investors. Housing prices and employment data were stronger than expected and consumer confidence continues to rise. Housing finance data remained solid suggesting an improvement in housing activity later in the year. China continues to show signs of a strong economy. This is being reflected in commodity prices and supports the large diversified miners in the Australian market. All these factors combined with a view that significant "cash" remains on the sidelines provides significant support to the market.

We currently hold an overweight exposure to Australian equities and are overweight large-cap companies relative to small cap companies.

### Diversified Property

The Listed Property sector both domestically and globally was one of the best performing asset classes during the quarter, returning approximately 18%. Unlisted property, to which MAP has no exposure, fell approximately 3%. The market has focused on the good value within the listed sector following large write-downs in property values and significant capital raisings in the previous months. Increased speculation of mergers and acquisitions (M&A) activity buoyed prices. Reduced gearing levels and greater liquidity in debt markets also

benefited the sector. Global funds bought into the Australian real estate investment trust (REIT) sector during the month which resulted in a solid performance across the large-cap property stocks.

We have a slight overweight exposure to listed property and we continue to favour global listed property trusts over domestic listed trusts. We have a significant underweight in unlisted property which we expect to make an investment in before year end.

#### Alternative Assets

Our infrastructure debt investments continue to perform well with all investments meeting their obligations. The excess return over cash is approximately 7% when the investment is targeting only 3%. Given the 100 percent floating rate nature of the investments, this provides protection against a rising interest rate and inflationary environment.

Our hedge funds remain long equities and bonds, albeit less aggressive due to the strong rally in the last six months where valuations are becoming stretched. The funds are neutral on exchange rates. Following a period of US dollar weakness several currencies share a similar outlook. They have become expensive versus the Dollar but have positive momentum. The combination of offsetting value and momentum signals results in fewer opportunities. As many commodity markets have high prices and negative roll yields, the investments hold a net short commodity position.

Listed private equity returns continue to outperform the major broader market indices as equity markets recover. There are even signs of the Initial Public Offering (IPO) market opening up. There are reports that a further 16 companies registered to IPO in the US in August. And locally, the private equity-backed retailer, Myer recently undertook their IPO. If these IPOs are successful, they will provide another change in market sentiment and another significant boost to Leverage Buyout (LBO) focused listed private equity stocks.

#### Portfolio Management

Our portfolio management team has been implementing changes to the investment strategy in recent months. The MAP cash pool has had all credit risk removed and consists predominantly of term deposits and cash. MAP's exposure to high yield/emerging market debt has been reduced following significant gains in that part

of the credit market over the last six months. We have reduced the manager expense ratio (MER) in both Australian and international equities through the consolidation of 3 managers in Australian equities and the appointment of a low

risk/fee manager in international equities. We have reduced our exposure to hedge funds after strong performance in the last six months and have made an investment in private equity where valuations remain extremely attractive. ■■■

**Table 1: MAP Superannuation Plan Returns to 30 September 2009**

POOLS	% PA 10 YEARS	% PA 7 YEARS	% PA 5 YEARS	% PA 3 YEARS	% PA 1 YEAR
<b>AUSTRALIAN EQUITIES</b>					
MAP	n/a*	n/a*	9.0	1.4	5.6
MARKET	n/a*	n/a*	9.4	1.9	8.9
VARIANCE	n/a*	n/a*	(0.4)	(0.5)	(3.3)
<b>INTERNATIONAL EQUITIES</b>					
MAP	n/a*	n/a*	0.4	(7.2)	(2.8)
MARKET	n/a*	n/a*	(0.9)	(9.0)	(9.9)
VARIANCE	n/a*	n/a*	1.3	1.8	7.1
<b>DIVERSIFIED PROPERTY</b>					
MAP	n/a*	n/a*	(3.0)	(15.2)	(20.1)
MARKET	n/a*	n/a*	(2.3)	(13.0)	(17.9)
VARIANCE	n/a*	n/a*	(0.7)	(2.2)	(2.2)
<b>CASH</b>					
MAP	4.8	4.8	5.0	4.8	4.9
MARKET	4.7	4.5	4.6	4.6	3.4
VARIANCE	0.1	0.3	0.4	0.2	1.5
<b>BALANCED</b>					
MAP	4.9	6.1	4.7	(1.4)	0.9
MARKET	5.8	6.3	4.6	(0.7)	0.4
VARIANCE	(0.9)	(0.2)	0.1	(0.7)	0.5
<b>CAPITAL STABLE</b>					
MAP	4.9	5.0	4.4	1.6	2.2
MARKET	5.2	5.8	4.6	1.9	2.5
VARIANCE	(0.3)	(0.8)	(0.2)	(0.3)	(0.3)
<b>GROWTH</b>					
MAP	4.9	7.1	5.4	(2.3)	0.5
MARKET	5.8	7.0	4.6	(2.2)	(1.3)
VARIANCE	(0.9)	0.1	0.8	(0.1)	1.8

- \* 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

## Transition to Retirement strategies

Many people aged 60 or over establish transition to retirement pensions (also known as TTRs and TRAPs) to maximise their contributions and take advantage of a tax free pension income.

In May this year the Government announced a reduction in the tax deductible contributions limit (known as the Concessional Contribution Cap) from \$100,000 to \$50,000 for those aged over 50 years, effective from 1 July 2009.

If you have a TTR pension, it is important to review your strategy to ensure you are not making contributions exceeding the \$50,000 cap. If you do exceed the cap, excess tax will be charged at 31.5% in addition to the 15% contributions tax (totalling 46.5%).

For some, the benefit of taking a tax free pension income is no longer effective. If you haven't reviewed your TTR strategy, you should contact your financial planner to ensure your strategy is still appropriate.

### Using a Transition to Retirement (TTR) strategy to help pay off debts

Consider Bill who has remarried after a divorce. Bill and his ex-wife split their assets. She kept the house and he kept his \$800,000 superannuation. Bill is aged 55 and has two children from his second marriage, aged 5 and 7.

Bill has taken out a 25-year, \$350,000 mortgage to buy a home for his second family. He can't withdraw a lump sum from his super to pay off the mortgage, but he can start a TTR pension to speed up repayments.

Bill is currently paying \$2,255 per month on his mortgage and if the interest rate remains at 6%, it will be paid off in 25 years at a cost of \$676,500 including \$326,500 in interest.

If Bill starts a TTR pension with \$500,000 from his superannuation, he can draw \$20,000 per year and use it to increase his mortgage repayments. By paying \$3,886 a month, the loan will be paid out in 10 years at a cost of \$466,320 including \$116,320 in interest, a saving of \$210,180.

This strategy can be used by virtually anyone who is at least 55 years of age and has a significant amount of superannuation.

## Protecting the "whole" family

Whilst older generations of a family may have worked hard to create and protect their wealth, if their adult children fail to consider their long-term needs and protect against unexpected life events, their parent's financial security may be jeopardised.

Often overlooked is the effect when something unforeseen happens to adult children, it is common for the parents to step in and provide support, eroding their retirement savings.

First and foremost, the death of an adult child can have a significant financial impact, especially if they have outstanding debt or are supporting dependents. The problem is even more complex when there are dependents such as grandchildren involved.

Numerous other traumatic events, including illness, injury and disability can prevent a person from working for weeks, months, or even years. Medical expenses can be ongoing and financially draining.

Adult children may experience relationship breakdowns, often presenting significant financial planning implications relating to mortgages and other accumulated debt. Relationships may not end amicably, and reaching a legal settlement can take time, effort and significant cost. Parents may have to assist in "buying out" their adult child's ex-spouse. It can be difficult to structure such expenditure and it has the potential to create tension amongst siblings.

### Whole family planning scenario

By involving the entire family, a financial planner has greater scope to come up with the optimal financial situation, especially if there are trusts and small businesses involved.

Many financial planning clients use discretionary family trusts for estate planning. Due to the nature of trusts there are several beneficiaries, which generally include children. Thus it can be advisable to involve the adult children in the process. As the recipients of distributions from the trust, it is likely they'll need advice on how to manage their assets.

Generally speaking, a financial planner can usually work out a more appropriate strategy if they know the goals of the entire family. For example, if a client has a small business, succession planning should be discussed. Should they sell up or pass the business down to their children? This situation can get complicated if the business is passed down

to one child, as other siblings may perceive this as an inequality. The entire family should be involved to work out a plan that suits everyone.

Financial planners often find that by involving the entire family there can be benefits in relation to tax planning. Adult children may employ their parents in the business. This can be tax-effective for the business as well as its employees. Once again, the whole family should be involved in the strategy.

Contact a MAP Financial Planner on 07 3838 1237 to discuss any of these important strategies and how they may work for, and protect, you and your family.

### What is the S&P/ASX 200?

The S&P/ASX 200 index is recognised as the primary stock market index in Australia. It measures the performance of the 200 largest index-eligible stocks listed on the Australian Stock Exchange with changes in the value of the index reflecting changes in the share prices of the index constituents. The index covers approximately 78% of Australian equity market capitalisation.

Most major newspapers and daily news broadcasts include details of the daily performance and current value of the S&P/ASX 200.

## WIN A GOURMET HAMPER VALUED AT \$150

Question: Predict what the S&P/ASX 200 value will be at close of business on 31 December 2009

Enter online at [www.mapfunds.com.au/page/comp](http://www.mapfunds.com.au/page/comp)

Entries may also be made by sending your name, phone no. and answer to  
MAP Financial Planning, GPO Box 1130,  
Brisbane QLD 4001

Entries close 5pm Friday 18 December 2009.

*The competition is open only to MAP members. Limit of one entry per member. If more than one correct entry is received the prize will be awarded to the first correct entry received. Winner will be announced 11 January 2010. Full Terms and Conditions are included on the competition webpage.*



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MAP Pooled Superannuation Trust RSE No. R1001563  
MAP Australian Equity Fund ARSN 092 833 308

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