

your FINANCIAL WEALTH

A regular check up on your investments for a healthy future

February 2010

Looking forward in 2010

For the first edition of Your Financial Health in 2010, we ask our **Chief Investment Officer, Ross Endres** to share with us his thoughts on the markets in 2010, including where he will be looking for value on behalf of MAP members and what global factors may impact on MAP members. Here, we present his thoughts.

Cash is offering good value at the moment and MAP intends to continue to take advantage of investment grade rated term deposits currently offering up to 6.9% for 12 months. We expect cash to continue to offer good value as the traditional funding sources for Australian Banks continue to be expensive, meaning they need to offer attractive rates for traditional term deposits.

We also consider bond markets when looking at cash. The yield curves present in most bond markets makes cash potentially more attractive than fixed interest. So for 2010, we see being overweight in cash and underweight in fixed interest as an attractive strategy.

In making decisions to invest in riskier asset classes such as equities, we always look at the premium we could expect to achieve from such an investment. Currently, we believe a fair return for an equity investment in 2010 would be in the vicinity of 13%.

We believe this is achievable as in our view:

- The market is neither cheap nor expensive. This view assumes the economy maintains its current strength, earnings growth is delivered and dividend payments resume.
- Our share index is heavily reliant on emerging economies and we have the raw material required to urbanise those emerging economies. The growth in the economy we derive from this supports incomes that in turn are spent on consumption of goods and services and housing.
- Our banks derive their 'bread and butter' returns from home mortgages. This explains in part why our housing situation is so much better than other economies.

When we add other factors such as demand for housing generated by immigration, a shortage of land in areas people want to live and, compared to other indexes, an over representation of AA rated investment grade banks, we believe the performance potential of Australian equities compared to global equity markets is strong and will remain so for some time.

We do not believe a significantly large overweight exposure to Australian Equities in MAP portfolios is justified, however we do believe weightings should be greater than for international equities.

We also believe that 2010 will deliver good returns in emerging markets, private equity and listed property however the potential for volatility from these asset types means we will be taking a moderate exposure.

Under these assumptions low double digit returns could be expected in the coming year from a balanced type portfolio containing up to 75% growth assets.

We also look closely at what factors could derail such an outcome and why. These include:

Failure to Reduce Policy Stimulus

Massive fiscal expansion, record low interest rates and Government bailouts (particularly in the UK and US) have substantially reduced the risks of further crisis in the global financial system. This has come at a cost and Governments must now look at reducing debt and balancing the budget by maintaining economic growth above trend for some time, raising taxes independently of growth in the economy or reducing spending.

The risk is that stimulus measures will be reduced too late, and when growth returns inflation will rise. In this scenario, interest rates will have to rise, accordingly curtailing growth. There is some evidence already that fiscal measures employed have simply bought forward consumption activity and we need leading indicators and actual economic data in the first quarter of this year to truly reveal the strength of economic activity. The possibility of a double dip recession is not zero.

Banks

Banks are the credit conduits in the economy. They take small deposits and make these available as loans over longer periods. The system relies on trust and depositors not wanting their money at the same time. When banks get involved in risky assets, and the value of supporting assets falls, consumers lose confidence and want their money back. The majority of banks in the UK have been nationalised due to this very real threat (ie Northern Rock Building Society) to prevent the financial system from failing.

Going forward, banks are likely to face greater regulation. There are already plans in place to tax bonuses in the UK, and the US is trying to tax any bank that receives government funds. All this regulation does is to slow contemporaneous lending and potential credit in the economy. When this slows, economic activity slows and politicians get nervous. *Continues overleaf..*



MAP Chief Investment Officer, Ross Endres



This Issue

Looking forward in 2010

MAP Investment Update

MAP Financial Planning Update



MAP Investment Update

Continued from page 1...

Banks are currently rebuilding balance sheets by reducing the volume and raising the price, of credit. Growth will return but with less strength than previous recoveries. Unemployment will stay higher and pressure will be maintained on fiscal budgets. Interest rates will be higher accordingly.

Global Policy response

In order for the US to finance the \$2trn in debt issued in recent times, the US FED (as part of its quantitative easing policy) bought 80% of the government debt. Their policy has enabled interest rates on bond yields to be lower than would otherwise have been. Remember, when supply exceeds demand, the price falls, in 'bond land' this means interest rates go up. The FED has discussed concluding this policy in March. The problem for the FED is if the economic recovery is slow, they may have to continue this policy past March. US housing mortgage rates are priced off the bond yield. Continuing this policy of funding the debt (US government continuing with large deficits) will raise issues of sovereign credit worthiness of the US government and raise fears of inflation in the future. In this scenario, the USD will come under pressure.

The short term outlook will depend on the current earnings reporting season globally and in Australia. If earnings are driven by growth factors, then it would take a policy mistake as mentioned above for risky assets to come under pressure. In recent times, steps by China to curtail bank lending for example has seen the Australian market come under pressure indicating the sensitivity of the market to concerns about the ability to withdraw all the global stimulus and get it right.

Risky assets are also priced for continuing low interest rates. The AUD is benefiting from this as our central bank has stated that our rates are at emergency levels and need to be raised accordingly. It is assumed in the US that rates will be on hold for all of 2010. If rates are raised earlier, risky assets could come under pressure. There is a concern that the current level of interest rates globally is beginning to cause bubbles in bond yields, commodities and equity markets, so the seeds are being set for the same problems we encountered in 2008 resulting from the low level of interest rates in 2003 and 2004. Potentially, nothing has been learned.

2010 could be just as interesting as 2009.

In the month of December risk continued to be rewarded with equity and credit markets continuing to perform well as shown in the table below.

ASSET CLASS	DECEMBER 2009	31 DECEMBER 2008 to 31 DECEMBER 2009
Cash	0.3%	3.5%
Australian Fixed Interest	(0.4)%	1.7%
International Fixed Interest (Hedged)	(0.7)%	4.8%
Australian Equities	3.7%	37.6%
International Equities (Unhedged)	3.8%	0.9%
Emerging Markets (Unhedged)	6.0%	39.6%
Global Listed Property (Hedged)	5.6%	33.0%
Unlisted Australian Direct Property	(0.5)%	(9.1)%
Listed Private Equity (Hedged)	6.3%	42.4%
Hedge Funds (Hedged)	0.9%	10.8%
\$/A/USD	0.89	0.70*

Source: MAP, Datastream

*31 December 2008

Cash & Fixed Interest

Australia's official interest rate is currently 3.5%. Given continued strength in the Australian dollar, interest rates are expected to increase to around 4.5% by the middle of 2010. We are taking advantage of this by investing in term deposits generally maintaining duration of around 70 days and a yield of not less than 6.0%.

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 well into 2010. The current shape of the yield curve (10 year government bond rates – cash rates) are at extreme levels and are not attractive. Further, there are signs of concern surrounding sovereign credit ratings in the UK and Japan. As such we have reduced our exposure to international government bond yields.

Global Equities

Global equities continued to advance in December, with the MSCI World Index up 3.8% in Australian dollar terms.

Stronger-than-expected US home sales and employment data buoyed investor sentiment early in the month. Market performance was mixed in the middle of the month after Greece's debt rating was downgraded. Equities regained momentum towards month end due to the holiday season, driven by better-than-expected UK growth data, US home sales and initial jobless claims, as well as Chinese growth forecasts and Japanese industrial production.

Emerging markets outperformed developed markets again in December. For most emerging markets the picture is bright,

as strong growth will continue to be underpinned by healthy domestic demand expansion, even in the face of sluggish consumption growth in the developed world. China, the largest emerging market, will continue to punch above its weight in terms of its contribution to world economic growth. We expect Chinese growth to clock in at around 9% in 2010.

MAP maintains an underweight exposure to international equities with a slight overweight in emerging markets.

Australian Equities

The Australian equity market increased 3.7% in December bringing the return for the quarter to 3.4%. M&A activity remained a key focus for investors during the quarter after NAB announced a surprise bid for AXA which exceeded an offer from AMP.

Steel stocks and large miners performed strongly as the outlook for global growth and commodity prices continued to improve. The energy sector was adversely impacted by a combination of project cost over-runs, equity raisings and/or downgraded earnings expectations.

The resilience of the Australian economy was once again demonstrated by the RBA raising the cash rate in December. This rate rise was a policy response to the strong employment, housing and finance data. Rising interest rates and strong commodity prices continued to support the AUD, which has rallied 32% against the USD over 2009.

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

Diversified Property

Global listed property stocks returned 5.6% in December with all regions performing well.

Unlisted property fell 0.5% in December. The unlisted sector is at or very close to the bottom of the property cycle with some evidence of an improvement as continued strong growth in employment and signs of activity return to the market.

We have a slight overweight exposure to listed property and continue to favour global listed property trusts. We have made an investment in unlisted property and expect to continue to do so in coming months.

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 target is 3% above cash. Improving sentiment in residential property markets has seen strong returns from our listed and unlisted property related investments while some value was written back on infrastructure investments written down in June 2009. The 100% floating rate nature of the investments provide protection against a rising interest rate and inflationary environment.

December was a volatile month in global markets and our hedge funds were able to profit from these opportunities. Equity markets consolidated at slightly higher levels in the final days of the month and concerns around the ability of businesses to refinance existing debt have declined. With debt capital markets now open and businesses able to refinance, the outlook has improved considerably, supporting the strong rally in credit markets. Our managers added value in equity and bond markets accordingly. Strong returns were also made from direct financing to companies unable to access bank financing. Volatility in currency and commodity markets saw value lost in these markets. Our hedge fund investments continue to perform their role of reducing volatility.

Listed private equity returns continue to outperform the major broader market increasing 6.3% in December. The key factors driving the performance of listed private equity continues to be an improving exit market in the form of an increase in trade sales and a surprising number of IPOs. Equity cures (where a private equity manager makes a follow-on investment in a company in order to avoid breaching loan covenants) have been far fewer than expected as companies conserve cash.

Portfolio Management

We continue to implement changes in line with the recently revised investment strategy.

In the December quarter MAP invested in a direct property fund as part of the diversified property asset class within the multi-asset pools. This direct property investment over a medium term provides similar returns to listed property trusts with significantly less volatility.

This investment is slightly more expensive than listed property trusts and as such the external manager fee for the Diversified Property Pool is to rise 0.15% to 1.00% per annum. It is anticipated the Diversified Property Pool will contain some direct property exposure by late February. There have been savings in external manager fees in the multi-asset pools to offset this slightly more expensive investment and as such there are no changes to the fees for the multi-asset pools.

Table 1: MAP Superannuation Plan

Returns to 31 December 2009 net of all fees and taxes

POOLS	% PA 10 YEARS	% PA 7 YEARS	% PA 5 YEARS	% PA 3 YEARS	% PA 1 YEAR
AUSTRALIAN EQUITIES					
MAP	n/a*	n/a*	7.7	(0.6)	31.5
MARKET	n/a*	n/a*	7.8	(0.2)	35.9
VARIANCE	n/a*	n/a*	(0.1)	(0.4)	(4.4)
INTERNATIONAL EQUITIES					
MAP	n/a*	n/a*	0.1	(7.5)	12.8
MARKET	n/a*	n/a*	(1.1)	(9.2)	8.1
VARIANCE	n/a*	n/a*	1.2	1.7	4.7
DIVERSIFIED PROPERTY					
MAP	n/a*	n/a*	(4.3)	(17.4)	21.3
MARKET	n/a*	n/a*	(4.2)	(14.6)	7.0
VARIANCE	n/a*	n/a*	(0.1)	(2.8)	14.3
CASH					
MAP	4.8	4.9	5.0	4.7	5.6
MARKET	4.7	4.5	4.6	4.4	2.9
VARIANCE	0.1	0.4	0.4	0.3	2.7
BALANCED					
MAP	4.6	6.0	3.9	(2.6)	17.3
MARKET	5.4	6.4	3.9	(1.6)	14.3
VARIANCE	(0.8)	(0.4)	0.0	(1.0)	3.0
CAPITAL STABLE					
MAP	4.9	4.9	4.0	1.0	10.6
MARKET	5.5	5.8	4.2	1.6	8.9
VARIANCE	(0.6)	(0.9)	(0.2)	(0.6)	1.7
GROWTH					
MAP	4.3	7.0	4.3	(3.8)	21.4
MARKET	5.1	6.9	4.0	(3.1)	17.0
VARIANCE	(0.8)	0.1	0.3	(0.7)	4.4

- * 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

More confidence in the air

It has now been nearly 12 months since the Australian stock market reached its absolute low from the high point in 2007. We are now experiencing a lot more confidence from our clients as they are prepared to review their portfolio asset allocation and make subtle changes.

We have been demonstrating to clients who have been in the pension phase for some years that although they have lost profits accumulated since 2001, often the capital value paid in prior to this still shows some growth. Unfortunately for those who made investments in 2006-07 many are still hurting from a reduction in their capital value and the only choice for them is to wait it out as we believe markets will improve over time.

We still expect some volatility but now is a good time to review your portfolio asset allocation to ensure you have a degree of risk you are comfortable with for the long term.

It can happen to anyone

Serious medical conditions such as cancer, heart attack or stroke can affect anyone, regardless of their lifestyle.

The majority of Australians do not have Trauma cover and are completely unaware of what this cover can provide. Trauma policies can provide cover for up to 30 or more serious illness conditions.

Think about what would happen in your situation. Would you have sufficient funds to cover additional medical expenses, fund the loss of income, cover child minding fees if you have small children or even provide for a carer if you were ill? Income protection cover may only provide for 75% loss of income, so how do you cover the difference? What if your partner has to give up work to be with you whilst you are receiving treatment or recovering? What if the pharmaceuticals you require cost tens of thousands of dollars?

Having a Trauma policy can provide you with a tax free lump sum upon initial diagnosis, giving you freedom to make the choices to ensure the best possible outcome.



Building up superannuation assets using existing assets outside superannuation

Superannuation is still one of the best places to build wealth to meet future living expenses when you consider superannuation taxation concessions.

With the reduction of the Concessional Contribution Cap for 2009-10 onwards, careful planning needs to be put in place to build up superannuation assets while at the same time, not exceeding the cap and paying excess contributions tax at a penalty rate of 31.5%. This reduction in the cap will have an effect on strategies with a purpose of transition to retirement or wealth creation in a tax effective manner.

Concessional Contribution Cap (09/10)

- Age under 50¹: \$25,000
- Age 50 or over²: \$50,000 (until 30/06/2012)

Non-Concessional Contribution Cap (09/10)

Remains unchanged at:

- \$150,000³
- \$450,000³ in one year if you are aged under 65 and meet certain conditions.

Contributing more than \$150,000 of non-concessional contributions in one financial year automatically triggers the 'bring forward' rule, which means a person can make up to 3 years worth of contributions in any one financial year. However, this must be carefully planned as any excess will result in tax being paid at 46.5%.

Investments in assets such as property, managed funds or a share portfolio may provide good investment returns, however, by holding these investments outside of the super environment individuals are unable to access super tax concessions available within this environment.

One of the main benefits of building assets within super is the compounding effect of the low tax rate over time, as is having a larger initial balance if commencing a transition to retirement (TTR) pension. A larger initial balance generally provides you with the ability to boost retirement savings even further when combined with a salary sacrifice strategy.

When building assets in super with existing non-super assets by selling or transferring assets in-specie to a Self Managed Superannuation Fund (SMSF) or super platform, the advantages and risks need to be considered carefully. We have outlined below some of the advantages and risks to consider:

Advantages

- Super earnings in accumulation phase are taxed at a maximum of 15%.
- Capital gains in the accumulation phase of super are taxed at a maximum of 10% if the asset is held for at least 12 months.
- Once in pension phase there is no tax payable on earnings and capital gains in the pension fund.
- All super benefits (lump sum and pension) paid from a taxed fund to individuals aged 60 or over are tax-free.
- Once a condition of release has been met, assets can be used to produce a regular income stream.
- A 15% tax offset applies to the taxable component of pension payments paid to individuals aged 55-59.

Risks to consider

- Selling assets or transferring assets into super may trigger Capital Gains Tax (CGT), stamp duty and other transaction costs.
- There are restrictions on the type of assets that can be transferred to a SMSF. Listed securities, business real property and managed funds can generally be acquired by a super fund. Business real property can only be transferred into a fund with fewer than 5 members.
- There is limited access to capital invested in super for individuals under age 65 who have not met a condition of release.
- The timing of the sale or transfer of non-super assets may not be appropriate (eg due to market conditions or if the asset was purchased as a mid to long term investment, such as an investment property).
- Assets held for less than 12 months are not eligible for the 50% CGT discount.

If you are aged between 60 and 63, this is the time you should be reviewing your affairs to ensure that you have an appropriate plan in place. Contact a MAP Financial Planner on 07 3838 1237.

¹ These thresholds are indexed in line with AWOTE in increments of \$5,000 (rounded down).

² These thresholds are not indexed.

³ These thresholds apply in the 2009-10 financial year. It is possible for a person under age 65 to contribute more than \$150,000 in non-concessional contributions in a financial year without incurring the excess contributions tax.

HOW TO CONTACT US

HEAD OFFICE

Lvl 9, 87 Wickham Tce, Brisbane QLD 4000
GPO Box 1130, Brisbane QLD 4001
Tel: 07 3838 1234 or 1800 640 055
Fax: 07 3838 1235
Email: enquiries@mapfunds.com.au Website: www.mapfunds.com.au

NSW OFFICE

Lvl 21, 201 Miller St, North Sydney NSW 2060
GPO Box 1130, Brisbane QLD 4001
Tel: 02 9959 2320
Fax: 02 8923 2525
Website: www.mapfunds.com.au

MAP Funds Management Ltd ABN 85 011 061 831
AFSL 240753 APRA RSE Licence No L0000703

Issuer and Trustee of:

MAP Superannuation Plan RSE No. R1001587
MAP Pooled Superannuation Trust RSE No. R1001563
MAP Australian Equity Fund ARSN 092 833 308

MAP Financial Planning is part of MAP Funds Management Ltd. Financial Planners from MAP Financial Planning are Authorised Representatives of HeritageMAP Pty Ltd ABN 91 090 411 537
AFSL 239117. GPO Box 1130 Brisbane Q 4001.

This document contains only Factual Information and General Advice. The information is not to be relied upon as investment advice or as being complete or accurate and is subject to change. The information in this document does not take into account your personal objectives, financial situation or needs. Before acting upon the advice, consider whether it is appropriate for your circumstances. No responsibility is taken by MAP Funds Management Ltd, HeritageMAP Pty Ltd or any employee or director of either company for any action that may be taken on the basis of the information provided. It may be best to obtain personal investment advice before making any investment decision relying on the information provided. You should also obtain and read any Product Disclosure Statements before making a decision to acquire or continue to hold any investments in MAP products. For a copy, go to www.mapfunds.com.au

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 Funds Management Ltd does not guarantee the repayment of capital or the investment performance of MAP products. Staff are remunerated by way of salary and may earn a bonus.