



Market volatility and fund performance

June 2008

What are the sub-prime and credit crises?

The root cause of the sub-prime crisis lay in some of the riskier securities traded in US fixed income markets. Mortgage-backed securities, based on residential mortgages, have been around for a long time.

However, over the last few years, home lenders have been increasingly willing to lend money to 'sub-prime' borrowers, who may have either little in the way of a deposit, or reasonable credit history, or even ability to repay loans.

Increasingly, these kinds of mortgages have been packaged-up and sold to investors. When US interest rates rose, a number of these borrowers defaulted on their loans. This in turn depressed the prices of these mortgage-backed securities.

Along with this, the uncertainty over just who has exposure to sub-prime loans and in what size has made it harder for even high quality institutions to obtain funds from the money markets.

This became known as the credit crisis, as major banks reigned in their lending practices, unsettling global share markets. The Australian sharemarket has not been immune to this instability.

The sub-prime mortgage meltdown has caused some drops in share value. But, it's important to remember that ups and downs in the sharemarket are normal and an expected part of market behaviour.

Over the past seven years, there have been a number of big events that shook the market - the war with Iraq in 2003, the US terrorist attacks in 2001 and the 'Tech Wreck' of 2000. All of these events caused share values to fall, but they climbed back up.

Any investor who is in for the long-run will experience low or negative returns at some stage or another. Luckily, markets generally bounce back and eventually return to or even surpass previous levels.

The time taken for the market to recover varies; it may take a few days, months or years. Knowing when the market will recover is not possible, so you need to be prepared to invest for the long-term.

-ends-

Important Information:

Any advice in this communication has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on any advice in this communication, consider



MLC Investments

whether it is appropriate to your objectives, financial situation and needs. You should obtain a Product Disclosure Statement or other disclosure document relating to any financial product issued by MLC Investments Limited ABN 30 002 641 661 and MLC Limited ABN 90 000 000 402 and consider it before making any decision about whether to acquire or continue to hold the product. A copy of the Product Disclosure Statement or other disclosure document is available upon request by phoning the MLC call centre on 132 652 or on our website at www.mlc.com.au

An investment in any product offered by a member company of the National group does not represent a deposit with or a liability of the National Australia Bank Limited ABN 12 004 044 937 or other member company of the National Australia Bank group of companies and is subject to investment risk including possible delays in repayment and loss or income and capital invested. None of the National Australia Bank Limited, MLC Limited, MLC Investments Limited or other member company in the National Australia Bank group of companies guarantees the capital value, payment of income or performance of any financial product referred to in this publication