



Hello everyone, I'm John Owen from MLC Investment Management and it's good to be with you. With the end of the September quarter nearly upon us, we wanted to give you an early indication of market performance and how MLC's strategies have delivered for investors. This September quarter is in stark contrast to last year's when the collapse of Lehman Brothers created havoc in markets worldwide. Investors will see better returns this quarter and they will also see evidence of a recovery in their one year returns as well.

The returns recovery is also a welcome confirmation that staying invested and not capitulating to fear when markets were falling was the right thing decision, in fact it is now starting to pay off. Markets can recover quickly, often when the news headlines are still negative. Waiting for the news to improve means you can miss out on some great returns.

There are two key areas we think are relevant for you. These are:

1. The recovery of markets, and
2. How much investors have participated in the recovery.

Australian shares

Let's start with Australian shares.

The market has recorded a positive return for six consecutive months and September looks like being the seventh in a row. The early signs of economic improvement and a profit reporting period which turned out to be better than expected have clearly helped.

The portfolio is also well positioned to benefit from any economic recovery via the ownership of cyclicals such as Fairfax Media, James Hardie and News Corporation. A significant performance contributor has also been ownership of bank stocks. Like it or not, the Australian banks have emerged from the global crisis stronger and with greater market share. The market has recognised this and their share price performance has been outstanding. ANZ and National Australia Bank are up 46% and 37% this quarter, around double the market's rise. Both banks feature prominently in MLC's Australian share portfolio in addition to CBA, Westpac and Suncorp.

Global Shares

A notable feature of the global market has been the significant out-performance of emerging markets over developed markets. For the year to 31 August, the emerging markets index had fallen by 7.7% while the unhedged MSCI World index was down by nearly 15%.

One other point that might interest investors is the additional exposure they get to emerging economies via the ownership of developed markets companies. These companies are significant exporters of goods and services to developing economies



like India and China. Companies, such as Unilever and Nestle, who have set up major operations in emerging countries, are listed on developed market exchanges but actually receive a significant portion of their sales and profits from trade with emerging economies.

Bonds

Let's touch on bonds and what has been happening. As you may have read in our June quarter reports, bond markets have been progressively recovering from the dislocation caused by the collapse of Lehman Brothers last year. As in the June quarter, we have been seeing a recovery in the pricing of bonds such as corporate and high yield bonds which have more risk than cash and government bonds. So very simply, the message here is what hurt returns last year is actually helping this year. And the reason you are benefiting is because we maintained our strategy and our exposures to the various bond categories.

Listed property

Let's touch briefly on listed property. The Australian and global listed property markets continue to recover. Many trusts have successfully raised more capital from shareholders and this has helped stabilise the sector. While returns for the quarter are strongly positive locally and globally, one year returns are still substantially negative.

Horizon portfolios

Lastly, let's look at the performance of the Horizon portfolios, in particular the Balance and Growth Funds. At the end of August, the one year return after fees and tax of the Balanced Fund was -9.3% and the Growth Fund was -11.5%. Three year returns were marginally negative while the five year returns remain positive. It's hard to estimate what the 30 September returns will be but the performance recovery of markets in the September quarter will no doubt help. We should see one year numbers improve further though they are almost certainly still going to be negative.

One final thing to remember is the disciplined rebalancing that we undertook when markets were falling. This has advantaged investors considerably. As share markets were falling last year, we were directing hundreds of millions of dollars into them to maintain our asset allocation. This has meant that investors have participated fully in the market recovery this year, more so than if we had let asset allocation drift and not followed our disciplined rebalancing approach.

Let me conclude by reminding you will be providing you with more information in the September quarter investment reports that should be available towards the end of October.

Thanks for listening and bye for now