

MLC Fund Performance Update, February 2010

Below is an edited transcript of a video recorded on 8 February, 2010 by MLC Senior Investment Strategist John Owen

Having just completed the first month of the new calendar year, here's an update on how markets have gone during January and the implications for your returns.

For global equity markets generally, January was a negative month. The Australian sharemarket fell by 6.2%, making it one of the worst performers globally. While this wasn't an ideal start to 2010, the Australian sharemarket is still up by 36% over the twelve months to 31 January. Looking ahead into February, companies will be reporting their half year results and it's hoped that there will be signs of earnings stability and perhaps recovery. A common remark made by our Australian share managers is that the easy gains have already occurred so we need some good earnings news to justify the rally in 2009. Going forward, they warn it'll be harder from a returns perspective and will be more about picking the right companies to own.

As for the MLC Australian shares strategy, performance in the month of January was better than market. This was due to seven managers outperforming: Maple-Brown Abbott, Dimensional, Lazard, Balanced Equity Management, JF Capital Partners, Wallara and Northcape. Stock holdings that assisted returns were Suncorp-Metway, National Australia Bank, Fairfax Media and Origin Energy. One year returns to the end of January are also better than market.

In global shares, market conditions were generally negative with all of the major developed markets losing ground. For example, in local currency terms, the US market was down by 3.7%. In January, Emerging Markets were also in negative territory, falling by 4.4%. While slightly worse than developed markets, emerging markets remain the superior performer in the year to January.

In this environment the MLC Global Share Strategy outperformed the market index by a small margin in January. This was due to the superior performance of all but two of the eight managers appointed by MLC. The return of MLC's global shares strategy in the year to January remains in positive territory and continues to outperform the market as well. This is a good outcome and follows the substantial manager changes that were made nearly a year ago. Sands Capital, one of the new managers that we appointed, has outperformed the market return by 10.5% in the six months to the end of December.

In line with the general weakness of equity markets, both Australian and global listed property market returns were in negative territory in January though one-year returns remain positive. Global listed property (on a hedged basis) is by far the superior performer. Both MLC strategies continue to outperform their respective market benchmarks on a one year basis. For the MLC Australian Property Securities Fund, both Challenger and Resolution Capital continue to outperform. Their preference for trusts with superior property portfolios, balance sheet strength and quality management continues to be rewarding. In the MLC Global Property Fund, Morgan Stanley and Resolution Capital have outperformed by substantial margins, due in part to their ownership of Asian property trusts.

The final asset class to highlight is bonds which have been gradually improving since the failure of Lehman Brothers sixteen months ago. Returns have normalised and most bond market yields have returned or are close to pre-Lehman bankruptcy levels. Our bond strategies continue to perform positively in this more rational environment with high yield and real return strategies assisting recent returns.

So what does all this mean for your portfolios? Based on preliminary and unaudited estimates for our superannuation portfolios, the MLC Balanced Fund returned -2.2% in January while the MLC Growth Fund returned -2.9%. While a negative return for the month is disappointing, it's not unexpected given the weakness of global share markets in January. However, the one year returns of both funds are positive and in the high teens. Again, based on preliminary unaudited estimates, the Balanced Fund return was +18% and the Growth Fund +20% for the twelve months to 31 January.

Just a quick mention, for more details on performance and markets, have a look at the December quarter MLC fund commentaries on our website. And don't forget to keep an eye on the MLC website for regular updates.

For more information visit www.mlc.com.au.