

MLC Fund Performance update

Below is an edited transcript of a video recorded on 7 May 2010 by MLC Senior Investment Strategist John Owen.

Hello everyone, I'm John Owen from MLC Investment Management and thanks for joining us again.

Now that April is behind us, here's an update on the performance of markets during that month and how your returns have been impacted.

Let's look first at global sharemarket returns. April was a month of mixed fortunes for sharemarkets as there was a very diverse array of market drivers, both positive and negative. Anything from the volcanic eruption in Iceland to the sovereign debt crisis in Greece.

The best performer of the major developed markets was the US where good first quarter earnings numbers announced by a number of major companies and more signs of economic improvement helped the S&P500 Index to rise by 1.5% for the month, in local currency terms.

European markets were clearly unsettled by Greece's debt crisis and the absence of an agreed bail-out package, as well as fears that other indebted nations such as Portugal and Spain could go through a similar crisis. As a result, European markets were generally weak, in particular France which fell by 4% in local currency terms. The UK's FT100 was also down by 2.2%. In Asia, markets were also down but only marginally so.

All in all, the MSCI World index on a hedged basis was up by 0.6% in April. It's worth remembering that despite the lost ground recorded by most markets in April, the one year return of the MSCI World index (hedged) remains strong and is up by 36.8% for the year to April 30.

In this environment, and based on preliminary estimates, the return of the MLC Global Share Strategy on a hedged basis after fees and tax was 1% in April, which is slightly better than the hedged benchmark return. For the year to 30 April, the MLC global shares strategy returned +36.8% hedged after fees and tax. The standout manager performers during the year remain Sands Capital and Dimensional.

Let's look now at the Australian sharemarket, which was down by 1.3% in April though remember this does follow a very strong 5.7% gain in March. While Greece's sovereign debt predicament did unsettle markets globally, a more immediate issue which influenced the Australian sharemarket was the rumoured introduction of a resources rent tax, which was subsequently confirmed by the release of the Henry Tax review early in May. In anticipation, Mining and Energy companies were weaker as a result. BHP fell by 6.5% in April while Rio Tinto was down by 8%.

You may be interested to know that for the 12 months to the end of April, the Australian sharemarket is up by 32.5%.

For the MLC Australian shares strategy, preliminary performance numbers point to a -1.3% return before fees and tax for the month of April, which is in line with the market's return. All but one of MLC's 10 appointed managers delivered a negative return for the month. Five outperformed while five underperformed.

If we look at returns for the year to the end of April, the MLC Australian shares strategy return was +33.5% before fees and tax. This is 1% above the market's return. As we saw for the month, five managers outperformed and five underperformed over the year. Interestingly, it's been the managers who practice a value approach to stock selection that have tended to be the better performers, specifically Dimensional, Maple-Brown Abbott and Balanced Equity Management.

Let's look now at the performance of listed property markets. Both the Australian and global listed property sectors delivered positive returns for the month. The Australian listed property sector increased by 3.9% in April and the

Global listed property sector (hedged) increased by 4.2%. For the year, the Australian and Global listed property sectors increased by 39% and 58.5% respectively. Both MLC strategies marginally underperformed their respective market benchmarks in the month and year.

Our debt strategies have continued to benefit from maintaining exposure to higher credit risk bonds. Global high yield bonds were the stand-out performer this month but after such a strong and relatively quick rebound in values over the past year, the potential for further gains from here has reduced. We are assessing whether this return potential justifies holding these higher credit risk sectors and we will consider making changes if required. Another positive in global bonds was the fall in yields in the non-government bond sector, particularly the longer term bonds. A fall in yields is a positive for bond values as values and yields move in opposite directions.

Before we move on from debt, it's worth clarifying for you the extent of our funds' exposure to countries such as Greece and other European countries with potentially similar sovereign debt problems. The ownership of debt securities issued by Portugal, Ireland, Italy, Greece and Spain, which combined have been given the unfortunate nickname 'PIIGS', is actually very small, in fact less than 1% of the debt allocation in each Horizon fund. With such a small exposure, there has been very little impact on returns in April.

So how have your portfolios performed? Well, returns for April were close to zero. For our superannuation portfolios and based on preliminary and unaudited estimates, the MLC Balanced Fund returned 0.1% in April after fees and tax. For the MLC Growth Fund, the return was -0.1%.

However, returns for both funds remain significantly positive for the year to the end of April. Again, based on preliminary unaudited estimates for superannuation portfolios, the Balanced Fund return after fees and tax was +20.9% and the Growth Fund +23.4% for the 12 months to 30 April.

Perhaps it goes without saying but investors who chose to maintain their strategy through the Global Financial Crisis continue to be rewarded for their discipline.

Just a reminder that March quarter fund commentaries have been completed and you can find them on mlc.com.au. And keep an eye on the MLC website for regular updates as well.

Thanks for listening and bye for now.