

MLC Fund performance update, June 2010

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

Hello everyone, I'm John Owen from MLC Investment Management and welcome to our latest monthly review.

Having just completed the month of May, here's an update on how markets performed during that month and the implications for your returns.

May was a particularly difficult month for investors as concerns over the debt crisis in Europe coincided with other negative influences. A growing aversion to riskier assets during the month meant that share market returns were generally in negative territory.

Of the major developed share markets, Japan's was one of the worst performers with the Nikkei index falling by 11.7% in local currency terms. America's S&P500 Index was down by 8.2% while the UK's FT100 was down by 6.6%. In Europe, France's market declined by 8%.

While individual share market performances in local currency terms were generally negative, the return of the MSCI All Countries Index in Australian dollar terms on an unhedged basis was a positive 0.6% for the month. This positive outcome on an unhedged basis reflects the sharp weakness of the Australian dollar during the month. For instance, the Australian dollar fell by 8.4% in May against the US Dollar and 11% versus the Japanese Yen.

In this environment, and based on preliminary estimates, the return in May of the MLC Global Share Strategy on an unhedged basis before fees and tax was +0.7%, which was slightly above the index return. Manager returns were mixed with Sands Capital once again the best performer. For the year to 31 May, MLC's global shares strategy on an unhedged basis returned 11.1% before fees and tax, which was 1.1% higher than the benchmark's one year return. This is a good outcome in both absolute and index relative terms as it was achieved in a year of such positive and negative extremes.

Let's look now at the Australian share market which fell by 7.5% in May. Aside from being caught up in the global concerns that pushed most share markets into negative territory, Australia's market was also buffeted by the Federal Government's resources super profits tax announcement in the Federal Budget. The market's response was predictably negative with Rio Tinto's and Fortescue Metals share prices falling by 18% and 12% respectively while BHP Billiton's was down by 6%.

For the MLC Australian shares strategy, preliminary performance numbers point to a return of -7.5% before fees and tax for the month of May, in line with the market's return. Maple-Brown Abbott and JF Capital Partners outperformed strongly while the remaining eight managers recorded returns that were close to or under the market's return. For the year to the end of May, the MLC Australian shares strategy before fees and tax returned +22.2%, outperforming the market return by 1.5%. Six of the ten appointed managers outperformed.

Let's turn our attention to listed property where both the Australian and global listed property markets lost ground in May. The Australian listed property index fell by 4.3% while the global index was down by 5.8% on a hedged basis. MLC's Australian listed property strategy returned -4.1%, marginally outperforming the market index. For MLC's global listed property strategy, the preliminary return estimate of -7.4% is under the market return.

And now to bonds. Our bond strategies have provided some protection for investors this month. The "flight to quality" theme has seen money flow out of riskier assets such as shares into the highest quality bonds issued by governments and banks. These bonds, which are a significant part of our bond portfolios, therefore provided a solid return as the increased demand forced yields lower. Yields fell mostly for longer maturing bonds so our more aggressive portfolios such as Horizon 4 and 5 benefited most from the falls. Remember, in bond markets, when yields are falling, values are rising.

The risk aversion in share markets did however have a negative impact on the higher risk bond markets, with high yield and non-government bonds both producing negative returns in May. Only last month these were the stand-out bond sectors because of their strong returns. Just proves the point that markets jump around a lot over short periods of time because they react to "market noise" but the fundamentals play out over longer periods of time.

So how have your portfolios performed? Well, returns for May were negative, perhaps not surprisingly considering the weakness of most asset classes during the month. For our superannuation portfolios and based on preliminary and unaudited estimates, the MLC Balanced Fund returned -2.9% in May after investment fees and tax. For the MLC Growth Fund, the estimated return was -3.7%.

One year returns remain in positive territory. Again, preliminary unaudited estimates pre investment fees and tax suggest the MLC Balanced Fund returned +15.3% and the MLC Growth Fund +16.1% for the twelve months to 31 May. Note these returns are lower than those we saw earlier this year and this is because very positive monthly returns from last year are progressively falling out of the one year return calculations and in recent months have been replaced with lower or negative one month returns.

Just a reminder to keep an eye on the MLC website for other updates and written communications that we prepare. For example, we recently published a comprehensive review of a change to the manager arrangements within our global shares strategy.

Thanks for listening and bye for now.