

## **MLC Fund Performance Update – July 2010**

*Below is an edited transcript of a video recorded on 6 July, 2010 by MLC Investment Strategist John Owen. .*

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

We've just completed the month of June which also brings us to the end of the financial year so here's an update on how markets performed and the impact on your returns during the month and the year.

In our last webcast, we mentioned that May was a difficult month. Unfortunately, June wasn't much better as a number of negatives such as Europe's sovereign debt situation and concerns that Chinese and US growth rates will slow drove the returns of many share markets into negative territory in June.

America's S&P500 Index returned -5.4% in local currency terms, the UK's FT100 Index fell by a similar magnitude while Japan's Nikkei Index was down by 3.9%. There were some bright spots with Hong Kong's and Singapore's markets recording positive returns and emerging market returns tending to be better than their developed markets peers. However, in aggregate, the return of the MSCI All Countries World Index unhedged in June was -3.1%.

As you can see, market sentiment at the close of the financial year is clearly more cautious than we saw at the start of the year. However, while markets have lost ground recently, share market returns for the year to 30 June remain generally positive with Japan the only major market to lose ground. For the year, the MSCI All Countries World Index unhedged returned +7.1% while the hedged index return was +14.1%, with the difference due to the rise in the Australian dollar.

In this environment, and based on preliminary estimates, the return in June of the MLC Global Share Strategy on an unhedged basis before fees and tax was -3%, which was slightly better than the unhedged index return. Manager returns were mixed with Tweedy Browne providing the best return versus index. For the year to 30 June, MLC's global shares strategy on an unhedged basis returned +8.9% before fees and tax, and this was 0.7% higher than the unhedged benchmark's one year return. As we observed last month, this is a good outcome 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 2.6% in June. This was the third consecutive month of lost ground. In fact the Australian market fell by 11.2% in the June quarter.

For the MLC Australian shares strategy, preliminary performance numbers point to a return of -3.1% in June, before fees and tax. This was 0.5% behind the market's return. Dimensional was the worst performer, which reflects the weaker performance of smaller companies in what is currently a more risk averse environment. For the year to the end of June, the MLC Australian shares strategy before fees and tax returned +13.8%, which was 0.8% higher than the market return. With six of the ten appointed managers underperforming, the MLC strategy's above index return for the year was therefore due to strong performances by JF Capital Partners, Maple-Brown Abbott and Balanced Equity Management.

Let's look now at listed property, which was also impacted by the weakness of equity markets. In June, the Australian listed property index returned -1% while the global index was down by 2.7% on a hedged basis. However, returns look good for the year with the Australian listed index returning +20.3% and the global index hedged up by 40.6%, double the return of the Australian sector. The return in June of MLC's Australian listed property strategy was in line with index while MLC's global listed property strategy return was well ahead of benchmark with all three managers outperforming.

And finally to bonds. Last month we remarked there has been a 'flight to quality', resulting in good returns by the highest quality bonds issued by governments and banks. In June, while investment grade securities continued to do well, riskier bond sectors such as US high yield and emerging markets did perform better. Perhaps in line with growing inflation concerns, Australian inflation linked bonds also performed well, which benefited the MLC funds like Balanced and Growth who have a significant exposure to inflation linked securities.

Let's look now at how your portfolios have performed. As we saw in May, weak share markets have also resulted in negative returns for June. For our superannuation portfolios and based on preliminary and unaudited estimates, the MLC Balanced Fund returned -1.2% in June after investment fees and tax. For the MLC Growth Fund, the estimated return was -1.8%.

Note that one year returns remain in positive territory, despite the recent negative monthly returns. Preliminary unaudited estimates after investment fees and tax suggest the MLC Balanced Fund returned +12.7% and the MLC Growth Fund +13% for the twelve months to 30 June. As we have mentioned in recent webcasts, one year returns are lower than those reported early this year and this is because very positive monthly returns from last year are progressively falling out of the one year return calculation and being replaced by less positive or in some cases negative one month returns.

Just a reminder to keep an eye on the MLC website as there will be a number of important updates coming soon. As we speak, we are preparing June quarter MLC fund commentaries and you will be able to access these late in July via the MLC website. You should also look out for our quarterly prospective return analysis, all of which we hope will provide you with important information to assist in your conversations with clients.

Thanks for listening and bye for now.

For more information visit [www.mlc.com.au](http://www.mlc.com.au).