

MLC Fund Performance Update – September 2010

Below is an edited transcript of a video recorded on 3 September, 2010 by MLC Investment Strategist John Owen. .

Hello everyone, I'm John Owen from MLC Investment Management and welcome to our latest update. We're well into the new financial year so here's an update on how markets and your funds have performed in August.

After a promising start to the new financial year with July yielding generally positive returns, August was comparatively dismal for investors. Global sharemarkets were broadly lower over the month with America's S&P500 index down by 4.7% (in local currency terms), Japan's Nikkei Index fell by 7.5% while in Europe the German and French markets fell by 3.6% and 4.2% respectively. The release of economic data in the US has accentuated concerns that the US economic recovery is slowing and this was clearly a negative influence on markets during August, including Australia's. This, coupled with Chinese intentions to slow the pace of their economy and the sovereign debt problems in Europe that haven't gone away have created more uncertainty amongst market participants on the outlook for global growth.

In this environment, the MSCI All Countries World Index on an unhedged basis returned -1.8% in August with emerging markets continuing to perform significantly better than developed markets. For the year to 31 August, the return of the unhedged MSCI All Countries world index was -1.5%. It's notable that the one year return of the index at the end of August was in negative territory after being consistently positive from January through to the end of July.

In August, the unhedged pre fees and tax return of the MLC global shares strategy was -1.8% which was in line with the index return. Sands Capital, Tweedy Browne, Mondrian and Walter Scott delivered the best returns. Looking at the twelve months to 31 August, MLC's strategy return on an unhedged pre fees and tax basis was marginally positive at +0.1%. This was significantly better than the return of the index which fell by 1.5% with Sands Capital, Tweedy Browne and Harding Loevner contributing to the strategy's outperformance. While the absolute return may disappoint, it is still great to see the MLC strategy delivering significantly better returns than the index.

Let's look now at the Australian share market which fell by 1.1% in August. While it is disappointing to report a negative return, our market actually performed substantially better than most developed share markets. As for the year to 31 August, the return of the Australian share market remains in positive territory but at +2.1% it's only marginally so. It was pleasing to see evidence of profit improvement in the recent profit reporting period with some companies also increasing dividends though this was by no means widespread and earnings expectations for 2011 are likely to be revised down. While Australia's listed companies have emerged from the Global Financial Crisis in reasonably good shape and our economic performance continues to be superior to many of the world's major economies, our market hasn't been immune from the problems in the broader global economy and the market volatility that has resulted.

In August, MLC's Australian shares strategy returned -1.3% before fees and tax which was 0.2% under the market's return. Dimensional, Lazard and JCP Investment Partners were the best performing managers. The benefit gained from having significant positions in good performers such as Suncorp-Metway and Brambles were outweighed by ownership of National Australia Bank, News Corporation, Tabcorp and Lend Lease all of whom recorded negative share price performances in August.

For the year, MLC's Australian shares strategy returned 1% before fees and tax which was 1.1% under the market's return. Managers who outperformed were limited to Maple-Brown Abbott, JCP Investment Partners and Northward Capital while the remaining seven managers in the strategy underperformed.

Let's look briefly at Australian listed property where the index returned +3.5% in August and +6% for the year. The return of MLC's Australian listed property strategy was in line with the index in August and 1.5% higher for the year before fees and tax and this was due primarily to the excellent performance of Resolution Capital.

As for global listed property, the UBS Global Investors Index on a hedged basis returned -0.1% in August. However, at +38.9% the one year return remains well in positive territory. In August, the return of MLC's strategy was +0.3% with all three appointed managers making a positive contribution. For the year, the MLC strategy return was +33.1% which is some way under the index return. This is the result of the decision by some of our managers to invest in Asian real estate operating companies who have underperformed recently.

Now let's review bond markets. In August, all the bond sectors produced positive returns with inflation-linked and emerging market bonds the strongest performers. Yields on government and company bonds fell in all major developed markets, and remember when yields are falling, values are rising. The largest gains were made on bonds maturing in 5 or more years. That explains the performance superiority of our bond strategies that have more in longer maturity bonds, such as the strategies used in our Horizon 4 and 5 portfolios.

With August share market returns in negative territory, the returns of MLC's Balanced and Growth Funds were also negative. Based on preliminary and unaudited performance estimates for our Super Fundamentals portfolios. MLC's Balanced Fund returned -0.4% for the month of August after fees and tax while the MLC Growth Fund returned -1.0%, also after fees and tax. The one year return of both funds remain in positive territory though as we have seen in recent months, they are lower than those that were reported earlier this year. In the year to 31 August, again based on preliminary and unaudited estimates, the MLC Balanced Fund returned +5.7% after fees and tax and the MLC Growth Fund returned +4.5%.

As we have suggested in the past, it's a good idea to keep an eye on the MLC website as we continually prepare articles and other material that are explicitly designed to help you.

Thanks for listening and bye for now.

Important information

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