

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

*Below is an edited transcript of a video recorded on 3 November 2010, by MLC Investment Specialist John Owen.*

Hello everyone, I'm John Owen from MLC Investment Management and welcome to our November market and fund update.

October was another favourable month for investors although sharemarket performances were relatively modest compared to the strong returns that we saw in September. Economic statistics released during October contained few surprises for markets though they did provide further confirmation of the gap between the economic growth rates of developed and developing economies. In a separate video, our Investment Strategist Brian Parker focuses on the more important economic developments in October and where to from here.

Let's look first at Australian shares where the ASX300 Accumulation Index increased by 1.8% in October. Once again it was the resource companies, in particular the bulk commodity miners who led the way. BHP and Rio Tinto each increased by 7.7% over the month while Fortescue Metals Group surged by 20%. We also saw a number of corporate actions with takeover offers for Perpetual, ASX and ING Industrial Fund. For the year to 31 October, the Australian share market is up by 4.7% which, as we will see in a moment is modest compared to the one year returns of other major global share markets.

The pre fees and tax return of MLC's Australian shares strategy in October was +1.9% and this was 0.1% better than the index return. Seven of the strategy's ten managers outperformed. For the year, the strategy returned +3.6%, underperforming the market by 1.1%. JCP Investment Partners was by far the best performing manager over the year, followed by Northward Capital.

Moving on to global shares, market conditions were generally favourable. Japan was the only major market to lose ground in October with the Nikkei Index falling by 1.8% in local currency terms. Elsewhere, returns were good with America's S&P500 index increasing by 3.7% in local currency terms and the UK's FT100 was up by 2.3%. Despite Europe's woes, Germany's market increased by 6% while the French index closed 3.2% higher for the month.

In line with the generally positive share market returns around the globe, the MSCI World Index increased by 3.2% in October. Note this is on a hedged basis. As we remarked last month, there continues to be a noticeable gap between returns on a hedged and an unhedged basis because the Australian dollar has been so strong. This is especially the case for the year to 31 October where the hedged MSCI World Index return was +14.9% while the unhedged return was +4.5%.

The October return of the MLC global shares strategy unhedged and pre fees and tax was +2.3% with Sands Capital and Harding Loevner the best performing managers within the strategy. For the year, the MLC strategy returned +6.9% unhedged and pre fees and tax and this was 1.2% higher than the index return. Sands Capital continues to outperform by a substantial margin due to their significant portfolio exposure to emerging market companies or companies listed on developed markets who are significant providers of goods and services to emerging economies. Other managers who outperformed over the year were Tweedy Browne and Harding Loevner.

Let's now look at global listed property where improving property fundamentals have helped make the sector one of the best sector performers for much of the last year. In October the hedged global property index return was +4.1% while for the year the hedged index return was very strong at +31.1%. Note that MLC's strategy is fully hedged so investors have been quarantined from the impact of the rising dollar.

The absolute returns of the strategy's three global property managers were all positive in October and substantially positive for the year. In October, the hedged MLC strategy return was +3.6% before fees and tax which was 0.5% under the index return. For the year, the MLC strategy returned +29.8% on a hedged basis and this was 1.3% below the hedged index return. Morgan Stanley was the best performer versus index.

Just quickly on the Australian listed property sector, the ASX300 Property Trusts Accumulation Index return was -0.4% in October and +4.5% for the year. Thanks to Resolution Capital, the strategy's return before fees and tax was 0.2% above the index in October and 2.9% above for the year, which is an exceptionally good result.

Let's look now at bond markets. As we mentioned in recent updates, government bond yields in all markets have been rising and this has also been the case with yields of corporate bonds. In Australia, the rise in bond yields is because of the likelihood that the Reserve Bank will keep increasing the official cash rate. While rates were kept on hold in October, the Reserve Bank did increase the cash rate by a quarter of a percent to 4.75% early in November. Remember, if bond yields are rising, it means the market's pricing of those bonds have been falling and this will impact returns from bonds.

One of the better performing bond categories continues to be high yield bonds, so much so that we have been reducing our funds' exposure to non-investment grade bonds as part of our Strategic Overlay process. It's worth noting again that we remove the risk of currency fluctuations regarding the investments we have in offshore bonds and this has been beneficial as the Australian dollar continues to rise.

Let's conclude with a review of aggregate MLC fund returns. Based on preliminary and unaudited performance estimates, the Superannuation Fundamentals version of the MLC Balanced Fund returned +1.3% after fees and tax in October while the MLC Growth Fund returned +1.6%. As for the year to 31 October, and again based on preliminary and unaudited estimates, the MLC Balanced Fund returned +7.8% and the MLC Growth Fund returned +7.5% after fees and tax.

Just finally, it's been a busy month for us preparing end of September quarter reports for our diversified and sector funds. You can find them on the MLC website as well as supporting presentations explaining what has been going on in various markets and the principal drivers of our fund returns. And we will continue to add feature articles as well so do keep an eye on the MLC website.

Thanks for spending the time with us and see you next month.

### **Important information**

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