

MLC Fund Performance Update – December 2010

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

Hello everyone, it's nice to be with you again. I'm John Owen from MLC Investment Management and welcome to our market and fund update for the month of November.

Unfortunately, November was another unexciting month for investors. The difficulties facing Ireland and its eventual bailout late in the month wasn't necessarily surprising but it did remind markets that we are far from being in a normal recovery cycle.

In November, global sharemarkets, returns were fairly muted. France's market was down 5.8% in local currency terms, making it one of the worst developed market performers. The UK's FT100 index fell by 2.6% while the S&P500 Index in the US was down by a marginal 0.2%. Germany's market was up by 1.3% despite peripheral Europe's woes while Japan's Nikkei surprised on the upside with a rise of 8% in local currency terms as investors targeted export oriented stocks who are prime beneficiaries of the Yen's weakness.

Overall, the MSCI World Index return on a hedged basis was barely unchanged with a rise of just 0.1% for the month. However, the MLC Global Shares strategy performed well with a return of +0.3% hedged and before fees and tax. Exceptionally strong returns were recorded by Sands Capital and Harding Loevner.

For the year, most markets recorded positive returns with Germany's +19% return the standout performer for the year. And despite Europe's sovereign debt problems and the slow pace of global economic recovery, the hedged MSCI World Index managed to record a very respectable +11.2% return for the year. MLC's +13.8% return on a hedged basis and before fees and tax was also a very good outcome, thanks to strong performances by Sands Capital, Harding Loevner and Tweedy Browne. .

As for the Australian share market, the ASX300 Accumulation Index fell by 1% in November. Sector returns were broadly negative with few highlights to report. For the year to 30 November, returns continue to lag many overseas markets with the ASX300 Accumulation Index up by only 1.8%.

The pre fees and tax return of MLC's Australian shares strategy in November was -1.2%, underperforming the market's return by 0.2%. Manager returns across all investment styles were mixed with five outperforming and five underperforming.

For the year, the strategy returned +1.7% which is just below the market's return. JCP Investment Partners continues to be the strategy's best performer, outperforming the market index by 6.4%.

Our global listed property strategy continues to be a performance highlight with very high absolute returns as well as good returns by all three appointed managers. While the month of November was uncharacteristically negative compared to recent months, MLC's +24.5% hedged one year strategy return reflects good stock selection by the appointed managers, particularly the selection of REITs and real estate operating companies in Asia.

As for the Australian listed property sector, the ASX300 Property Trusts Accumulation Index return was also in negative territory for the month with a return of -2%. For the year, the return was +1.5% which is very modest compared to the performances recorded by offshore markets. Thanks to Resolution Capital's stock selection, investors have received a return of 3.2% before fees and tax for the year which is 1.7% higher than the market return.

Bond markets have had another interesting month. In Australia, the Reserve Bank announced another quarter of a percent increase in the official cash rate, bringing the rate to 4.75%. This hurt returns from Australian bonds this month with longer maturity bonds producing a negative return as yields rose while short maturity bonds were marginally positive.

Global bond markets were dominated by Ireland's application to the European Union for an 85 billion Euro bailout package. The contagion risk and the risk of default continue to concern markets. Bond yields increased as bond values fell across government, investment grade and high yield sectors around the world, including emerging markets. Shorter maturity investment grade bonds managed to produce a positive return, but the rest were negative this month.

Our Horizon 1 and 2 portfolios which are more focussed on capital preservation have more exposure to cash and short maturity bonds so they produced stronger returns in November than our longer term debt strategies in Horizon 3 to 5 and the Diversified Debt Fund.

Let's finish with a review of MLC diversified fund returns, specifically our Balanced and Growth funds. Using preliminary and unaudited performance estimates, the Superannuation Fundamentals version of the MLC Balanced Fund returned +0.04% after fees and tax in November, barely a positive result for the month. The MLC Growth Fund return was also slight at +0.2%. As for the year to 30 November, and again based on preliminary and unaudited estimates, the MLC Balanced Fund returned +6.3% and the MLC Growth Fund returned +6.1% after fees and tax.

Just finally, we're approaching the end of another challenging year. We hope that you find time for some relaxation over Christmas and the new year period. We'll back early in 2011 with a review of the 2010 calendar so until then please accept our best wishes for Christmas and the new year.

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