

MLC Fund Performance update 31 January, 2011

Below is an edited transcript of a video recorded on 4 February 2010, by MLC Investment Specialist John Owen.

Hello everyone and welcome to our review of markets and MLC fund performance in January. I'm John Owen from MLC Investment Management.

January was actually a reasonable start to the new year for investors although developments in Egypt did inject caution later in the month. What was particularly encouraging in January was more evidence that the US economy continues to recover and grow. You can hear my colleague Brian Parker in a separate video where he talks about economic developments during the month and where to from here.

The positive return from global shares in January largely came from markets that some investors have perhaps been the most cautious about. Based on good local economic data, America's S&P500 Index increased by 2.3% in local currency terms for the month and for the year to the end of January, the S&P500 index is up by 20%.

In Europe where sovereign debt issues continue to fester, the French and German share markets performed strongly with rises of 5.3% and 2.4% respectively.

Returns elsewhere in global shares were comparatively lacklustre. The UK's FT100 index fell by 0.6% while Asian markets, including Australia's, were flat at best although Hong Kong's market was up by 1.8% in January. Overall, the hedged MSCI World Index return in January was +2.4%. The MLC global shares strategy return on a hedged basis was similarly positive at +1.1% but it underperformed the index.

As I mentioned a moment ago, Australia's share market return in January barely made it into positive territory with the ASX300 index up by only 0.1%. Uncertainty about the potential economic impact of the floods in Queensland and Victoria and lingering concerns that China's attempts to control inflation would lead to a lower rate of economic growth impacted market sentiment. Unlike previous months, resource stocks were weaker while industrials were generally firm. This helped all but three of our managers to outperform the market return, particularly managers like Maple-Brown Abbott who have been underweight resources because they believe there is better value in the industrials. For January, MLC's Australian shares strategy returned +0.3% which was 0.2% higher than the market's return.

As for listed property, the Australian sector performed well in January with the index rising by 2.4%. Global listed property also had a positive month, with the UBS Global Investors Index up by 2.4% on a hedged basis in January. All three global property managers that we have appointed delivered positive results with LaSalle the best performer in January.

Let's look at the global bond sector which had a more subdued month after a strong December. With the global economy looking strong, bond yields were generally higher, particularly bonds with longer terms to maturity. However, returns overall were still positive because the interest income provided a buffer to any capital losses. And not all sectors of the global bond market were weak. Once again, global high yield bonds were the strongest bond sector because of their higher yields.

The Australian bond market produced stronger returns than global markets over the month. Yields on Australian bonds fell, particularly government bonds with shorter-terms to maturity. The market factored in expectations of slower growth in the Australian economy due to the floods in QLD and Victoria. Slower growth means less pressure on inflation and interest rates. The Reserve Bank of Australia kept the official cash rate on hold at 4.75%.

Let's now cover returns for our diversified Balanced and Growth Funds. You'll notice that one year returns have jumped compared to those we reported a month ago. This recovery was partly because the negative returns recorded in the month of January last year when markets were weak have dropped out of the one year return calculation. Using preliminary and unaudited after fees and tax estimates, the Superannuation Fundamentals version of the MLC Balanced Fund returned +0.9% in January while the one year return to the end of January was +8.3%. For the MLC Growth Fund, returns were +1.0% in January and +8.6% for the year.

Just a reminder that we have completed end of December fund commentaries. We recommend you contact your financial adviser for a copy of these and to discuss their content. Thanks for listening and see you again next month.

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