

## Review of Market and MLC Fund returns

*Below is a transcript of a video recorded on 4 April 2011, by MLC Investment Specialist, John Owen.*

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

It probably goes without saying but the principal focus of all us in March was the catastrophe in northern Japan and the terrible suffering that was caused. Markets were also similarly focussed and while the disaster was not disregarded, the main issue for markets was assessing how severe its impact will be on Japan's economy and also the world's near term economic prospects. In a separate webcast, my colleague Kerry Gill will discuss these and other issues in more detail.

The response of markets to the unfolding tragedy was immediate and sharp falls were recorded around the globe. Not surprisingly, Japan's share market suffered the most. By month's end, some markets had clawed back some of their lost ground. In local currency terms, the S&P500 index in the US was down just 0.1% in March while the UK and German markets were down by 1.4% and 3.2% respectively. The Shanghai and Hong Kong stock exchanges were actually up by 0.8% over the month as was the Australian market which increased by 0.7%. However, Japan's Nikkei Index was still down by 8.2% over the month.

Overall, the unhedged MSCI All Countries World Index return in March was -1.7%.

At this point, it's worth commenting on the extent of our portfolios' exposure to Japanese equities. Our global share strategy has tended to be underweight Japanese equities for some time. Using end of January portfolio holdings, Japanese stocks accounted for 7.5% of the global shares portfolio which is underweight versus the global share index. The exposure of our managers varies, which we would expect given their different investment styles. One of our managers, Sands Capital hasn't chosen any Japanese companies for the part of the MLC portfolio they manage while Walter Scott does, though their preference is for large, globally focussed companies such as Honda, Canon and Mitsubishi. Also, the aggregate return of the Japanese stocks within the MLC global shares strategy outperformed the Nikkei Index in March.

As I mentioned a moment ago, Australia's share market also delivered a positive return in March although it was marginal at just +0.7% and most of this was due to the performance of resources and energy based companies. Energy stocks were particularly in demand as the turmoil in Libya pushed the oil price higher and Woodside Petroleum was the focus of takeover speculation. However, there were just as many industrial based stocks and sectors such as retail oriented companies to constrain the market's overall return to just +0.7%. In March, MLC's Australian shares strategy return was in line with the index. Our best performing managers were JCP Investment Partners, Wallara and Northcape.

Moving on to bond markets, they have served their purpose in our portfolios yet again, producing positive returns in March. Looking firstly at global bonds, yields on higher credit risk securities remained reasonably stable except in Europe where ongoing sovereign debt concerns resulted in a rise in both government and investment grade company bond yields in the region. Because there is an inverse relationship between bond yields and capital values, the rise in yields had a modest affect on returns from global bonds, particularly those with longer terms to maturity.

Looking elsewhere in the global bond universe, inflation-linked and global high yield bonds had another solid month but the highest returning bond sector was emerging markets which was beneficial to all our bond strategies, particularly Horizon's 4 and 5 and our Diversified Debt Fund.

In Australia, government bond yields fell, especially for bonds with terms between two and five years which helped all of our bond strategies, particularly those with longer terms to maturity. As for the interest rate outlook, evidence of weakness in some sectors of the Australian economy has reduced expectations of the Reserve Bank of Australia raising the official cash rate much beyond 4.75%.

Let's now review the performances of selected MLC diversified portfolios. Despite the enormity of the events that occurred in March, it may be a surprise to find that aggregate fund returns were in positive territory. Using preliminary and unaudited after fees and tax estimates, the Superannuation Fundamentals version of the MLC Balanced Fund returned +0.5% in March while the MLC Growth Fund recorded a return of +0.4%. One year returns for both funds remain in positive territory though they also remain in single digits. The one year return of the MLC Balanced Fund was +5.5% and the MLC Growth Fund returned +5.1% to the end of March.

Finally, investors may take some comfort from knowing that the aggregate fund exposure to Japanese shares, bonds, listed property and private equity is around 3% for the MLC Growth Fund and around 2.4% for the MLC Balanced Fund. This shows the importance of both diversification and active stock selection in an uncertain and unpredictable world.

Over the next month, we'll be preparing March quarter fund commentaries and quarterly publications such as our prospective returns analysis so keep an eye on the MLC website for their publication.

Thanks for listening and see you again next month.

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