

Review of Market and MLC Fund returns

Below is a transcript of a video recorded on 3 May 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 April.

Compared to March which was dominated by the earthquake and tsunami tragedy in Japan, April was a comparatively benign month for the world's major sharemarkets with many recording good gains in local currency terms. America's S&P500 index increased by 2.8% and the UK's FT100 index was up by 2.7%. In Europe, Germany's market was the standout performer with good profit results from exporters helping to drive the DAX index higher by 6.7%. With so much attention focused on the debt problems of various European countries, it is easy to overlook the fact that Germany's sharemarket is up by 22.5% over the year to 30 April.

In contrast, Asian market performances were mixed during April. Hong Kong's market was up by 0.8% while Japan's Nikkei index increased by 1%, retracing some of the lost ground suffered in March in the aftermath of the earthquake and tsunami. China's Shanghai exchange actually fell by 0.6% in response to the latest moves by the People's Bank of China to engineer a slowdown in China's economic growth.

Overall, the unhedged MSCI All Countries World Index return in April was -1.6% with MLC's global shares strategy outperforming by 0.3%. Carnegie and Tweedy Browne were exceptional performers with Capital International and Dimensional the only underperforming managers during the month.

Australia's share market performance continues to lag that of most developed markets offshore. It fell by 0.3% in April and for the year our share market has risen by just 4.9%. However, it does follow an exceptional return of 32.5% for the year to 30 April 2010 so it's not unreasonable to see a period of consolidation after such a strong recovery. Aside from the impact of lower levels of consumer spending on specific stocks, investor caution towards Australian companies with an exposure to the side effects of the rising Australian dollar has also been a drag on our market's performance. In a separate webcast, my colleague Kerry Gill talks about the strength of the Aussie dollar and other economic developments of investment significance.

MLC's Australian shares strategy returned -0.6% in April, underperforming the market's return by 0.3%. Manager returns were varied with JCP Investment Partners the strongest performer.

Moving on to bonds, the Australian bond market returns weren't as strong as those we saw in March but they were still positive. A rise in the March quarter inflation figure, beyond market expectations, saw government yields rise for terms up to 5 years. With more evidence of rising living costs and labour market tightening, the market has brought forward expectations the Reserve Bank of Australia will raise the official cash rate before the end of the calendar year. As a result, Australian bonds, which make up a large portion of our debt securities strategies, did not fare as well as global bonds over the month.

Global high yield bonds and emerging markets bonds also saw gains, although not as large as inflation-linked bonds in Australia and globally which, for the second month in a row, were the best performing debt sector. The Horizon portfolios with a greater focus on achieving returns above inflation, that is, those with more in growth assets, also have a higher allocation to inflation-linked bonds and therefore benefited most from the surge in the sector's performance. Unlike nominal bonds, inflation-linked bonds provide an excellent hedge against rising inflation.

Let's now review the performances of selected MLC diversified portfolios in the month and year to 30 April. Fund returns were slightly negative in April, due in part to the weakness of the Australian share market. Using preliminary and unaudited after fees and tax estimates, the Superannuation Fundamentals version of the MLC Balanced Fund returned -0.1% in April while the MLC Growth Fund recorded a return of -0.2%. 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 +4.6% and the MLC Growth Fund returned +4.3% to the end of April.

As I flagged last month, we've been preparing March quarter fund commentaries and quarterly publications such as our prospective returns analysis and these are available on the MLC website along with other new publications which we hope you find useful.

Thanks for listening and see you again next month.

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