

MLC Fund Performance Update



Review of Market and MLC portfolio performance to 31 May, 2011

Below is a transcript of a video recorded on 6 June 2011, by MLC Investment Specialist, Natalie Comino..

Hello everyone. I'm Natalie Comino from MLC Investment Management and welcome to our review of markets and MLC performance for the month of May.

Concerns of a slow down in the global recovery and resurfacing European debt woes weighed on returns from share markets in May. A fall in the relative value of the Australian dollar helped nudge global share returns into positive numbers whereas the Australian sharemarket ended the month down. Our bond strategies helped provide some buffer producing solid returns as yields fell.

Overall, most of our Horizon Portfolios produced a negative return in May although 1 year returns are strong. Our preliminary and unaudited after fees estimates of returns for MLC Wholesale Horizon 4 Balanced Portfolio show a negative return of 0.6% for the month of May and a positive 1 year return of 9%.

Of course, when investing, it's interesting to keep an eye on what the markets are doing day to day or month to month, but it shouldn't drive investment decisions. We need to filter what we read and hear as almost all of it has no bearing on what our investments will be worth when we eventually need to sell them in 10 or 20 years time.

That said, lets take a look at the Australian sharemarket first. The S&P/ASX200 ended the month down 2%. The market was pulled down by weak economic data, earnings downgrades and falling bank values due to ongoing concerns the Greek government may default on its debt and the knock-on effect would be an increase in funding costs for Australian banks. Telecommunication services was the best performing sector in Australia up 5.4% and Financials was the worst down 3.8%. Our managers had mixed results with 4 outperforming the market; Dimensional, Lazard, Jardine Capital and Northcape.

Although the Australian sharemarket fell over the month, the 1 year return is a very solid 10.8% and if we include the GFC period, the 5 year return is 3%. Not bad at all considering what overseas markets have been through. Speaking of which, lets take a look at global share markets now.

Overall, they rose 0.6% over the month of May as measured by the MSCI World Index in Australian dollar terms. This return masks the fact that most countries were actually down in local currency terms. But because the Australian dollar fell in May, returns from global investments benefited pushing what were mostly negative returns into positive territory. Hong Kong's Hang Seng Index was one of the few major markets that was positive. Healthcare was the best performing sector up 5.4% in Australian dollars. Energy was the worst down 2%, but was still the strongest over the year. All but one of our global share managers were positive in May, with Walter Scott and Wellington the strongest.

An overall positive return from global sharemarkets in May was a good result after falls in both March and April. Unfortunately, the recovery in the US has been slower than the market expected and it sold off on the release of weak manufacturing and employment data and of course unresolved sovereign debt issues in Europe continue to rattle markets. If we look at the longer term returns, the MSCI World Index has produced a return of 0.8% for the year but is still negative over a 5 year period.

The Australian dollar fell in May due to tempering expectations that the RBA would raise cash rates in the near term. We've been concerned for some time that having too much exposure to the Australian dollar was risky for investors in our Horizon Portfolios, that's why we reduced the hedging of our global shares exposure some time ago. This helped returns of our portfolios in May as the MSCI World hedged into Australian dollars was down 0.8%.

Global Property Securities had a great month, outperforming Australian and global share markets. And the Australian property securities market ended the month flat. Our Horizon portfolios have a small exposure to property securities as they provide some diversification benefits.

Now to our defensive asset class, bonds. Bond markets in Australia and overseas were basically all positive this month which helped provide much needed diversification to the relatively weak returns from share markets.

In Australia, the Reserve Bank left the official cash rate on hold at 4.75% at their May meeting, as the market expected. And with generally negative economic data being released during May expectations of the RBA raising rates in the near term have been pushed out. As a result yields on Australian bonds fell across the board for all maturities, except cash. A great result for investors in our portfolios as they have more in Australian bonds than global bonds. Global bonds were also positive but not as strong as the Australian market.

Inflation linked bonds in Australia and globally had another strong month. Emerging market and global high yield bonds were also positive.

So that's it for our review of performance for May. In a separate video, Brian Parker talks about economic developments and our view of potential risks.

We have various commentaries and data available in the Fund Profile Tool on our website and if you're interested in reading detailed annual commentaries, MLC's medium term view and other investment articles, please speak to your financial adviser.

Thanks for listening and see you again next month.

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