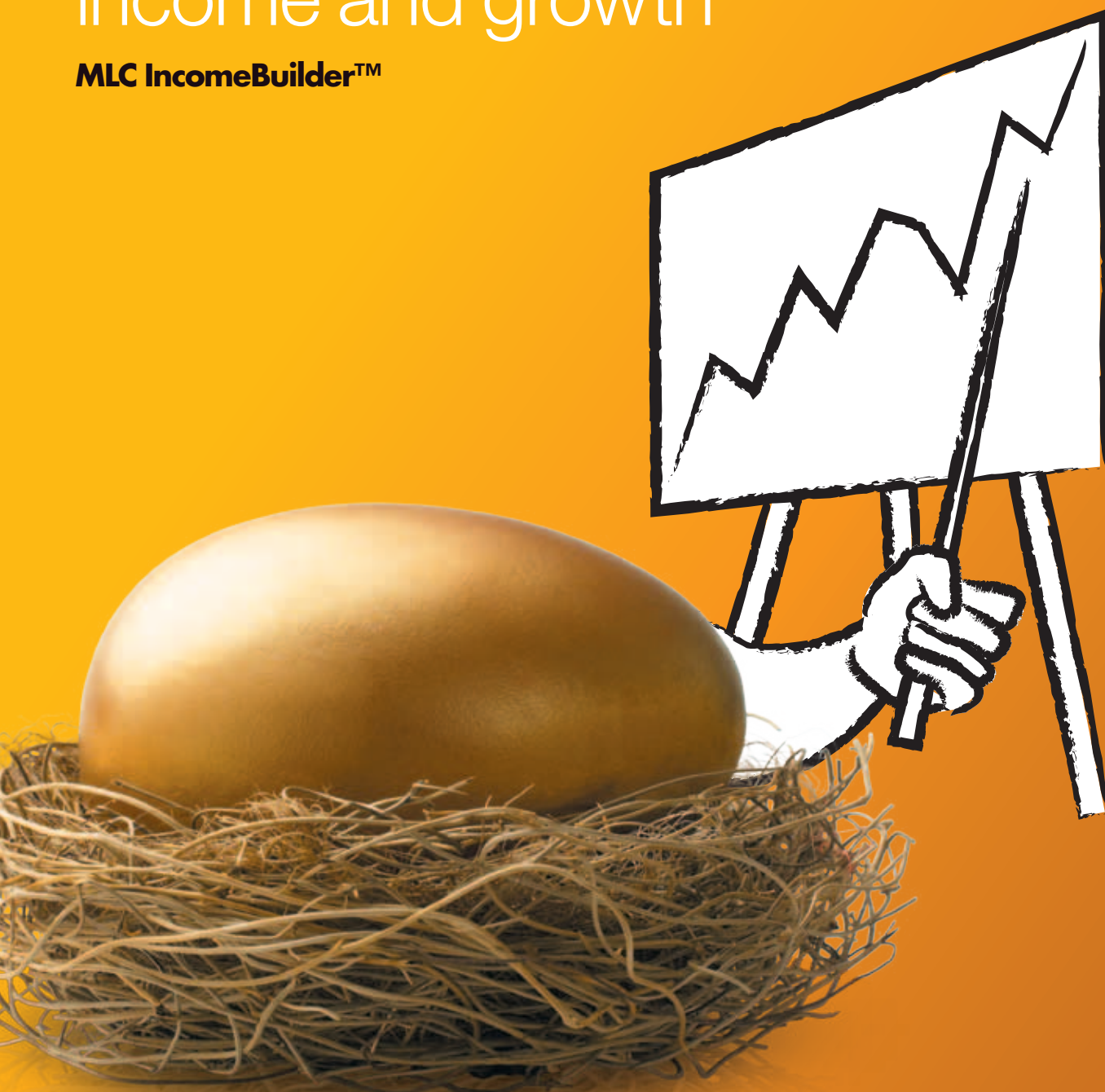


# Helping you achieve income and growth

**MLC IncomeBuilder™**



MLC IncomeBuilder™  
is an Australian Shares  
fund designed to give you a  
growing tax effective income  
stream, while also seeking to  
outperform the S&P/ASX  
200 Industrials Index.

### Important information

This information has been provided by MLC Investments Limited (ABN 30 002 641 661), a member of the National Australia Bank group of companies, 105-153 Miller Street, North Sydney 2060.

This communication contains general information and may constitute general advice. Any advice in this communication has been prepared without taking account of individual objectives, financial situation or needs. It should not be relied upon as a substitute for financial or other specialist advice.

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Past performance is not indicative of future performance. The value of an investment may rise or fall with the changes in the market. Please note that all performance reported is before management fees and taxes, unless otherwise stated.

The specialist investment managers are current as at the date this communication was prepared. Investment managers are regularly reviewed and may be appointed or removed at any time without prior notice to you.

## The MLC IncomeBuilder™ investment style

### Invest in profitable companies

Instead of focusing on movements in share prices, MLC IncomeBuilder™ invests primarily in dividend-focused shares.

### Create a growing income stream

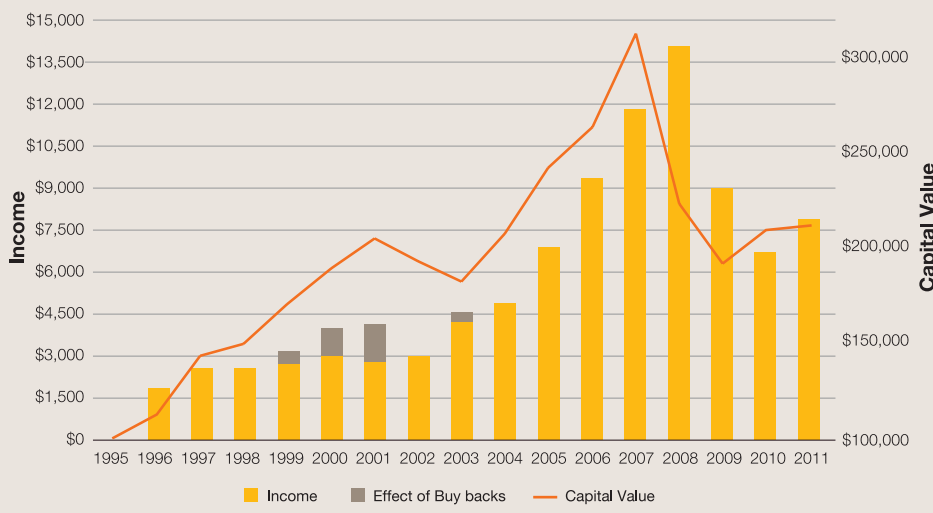
The income from shares has tended to grow in a far more predictable way than share prices, and MLC IncomeBuilder™ has delivered a consistent dividend stream.

### Low turnover means greater tax efficiency

MLC IncomeBuilder™ typically holds stocks for a longer period than other share funds, keeping transaction costs to a minimum and reducing the tax liability for investors.

### Growing income stream & rising capital value

Return on investment of \$100,000 in MLC IncomeBuilder™ (as at 30 June each year)



Source: MLC MasterKey Unit Trust – MLC IncomeBuilder™

# Why investing in shares for income makes sense

When compared with other investments, such as term deposits, returns from a share portfolio in the first few years may seem relatively low.

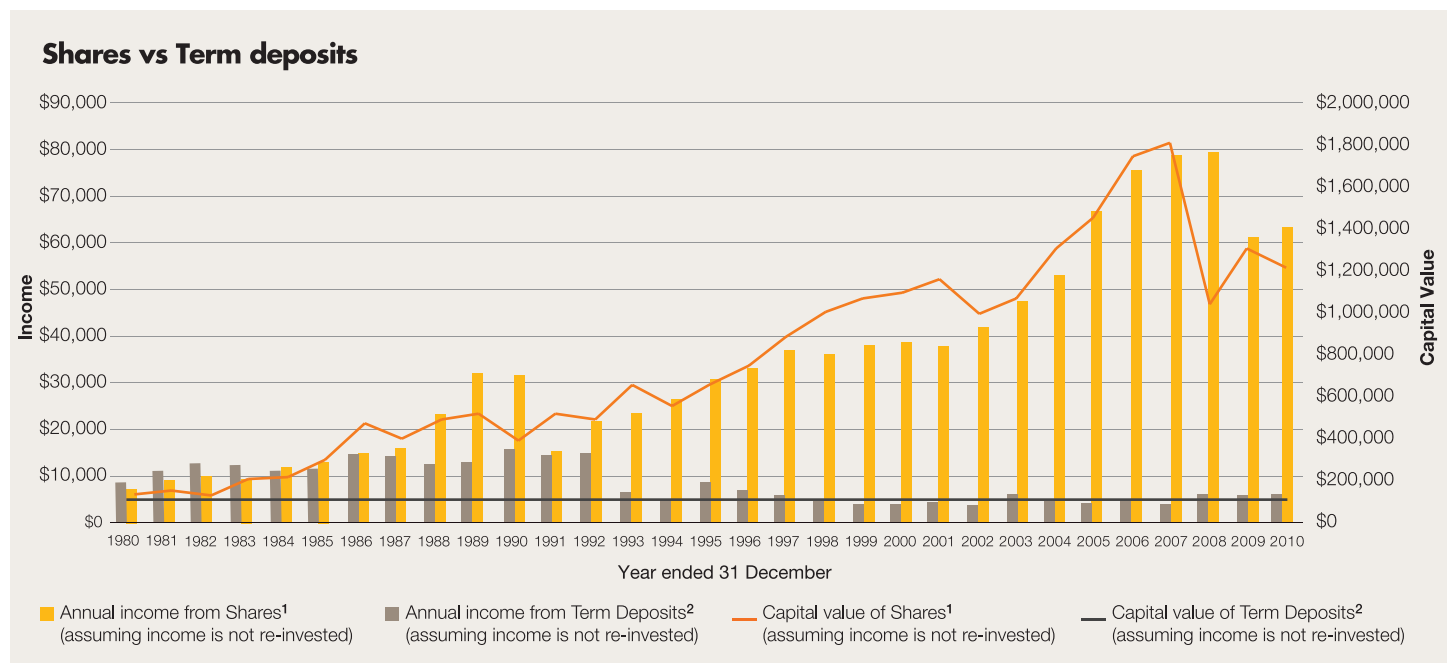
While returns in the short term may be higher from a term deposit, over the long term the potential for capital gains and income from a share portfolio increases considerably.

And it's not just about comparing the interest earned against an increase in share price.

If the same amount of money is invested in a term deposit and a share portfolio, over time that amount will grow in the share portfolio while staying the same in a term deposit. In addition to capital growth, the companies in the share portfolio will pay dividends, so you get an increasing income stream you can choose to spend or reinvest each year.

The graph below shows how the capital value of an Australian industrial share portfolio has increased in value from \$100,000 to over \$1,000,000 in the last 30 years – not to mention the increasing income you would have received on top of this.

Compare this to a term deposit where the \$100,000 remains the same after 30 years. And that's without taking into account the effect of inflation!



**Source**

1 Shares – Assumes income is not reinvested. Represented by the S&P/ASX 200 Industrial Accumulation and Price indices (All Industrials Accumulation and Price indices prior to April 2000).

2 Term Deposits – represented by the Reserve Bank of Australia (RBA) 12 month Banks' Term Deposits (\$10,000), prior to January 1982, the RBA 12 month Term Deposit rate (\$5,000–\$100,000).

# Helping you achieve growth and income

## There's more to shares than price

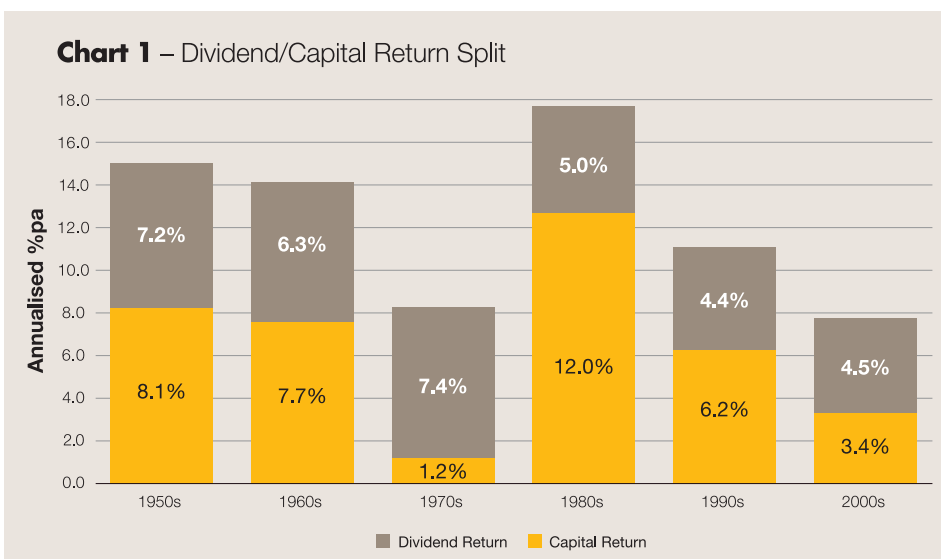
When people think of shares they usually measure the success of their investments by movements in the share price (capital returns). A changing share price, however, is just one of two aspects of shareholder return.

Shareholders in a company can also receive income in the form of company dividends, which are a share of company profits.

This income from shares has tended to grow more predictably than share prices.

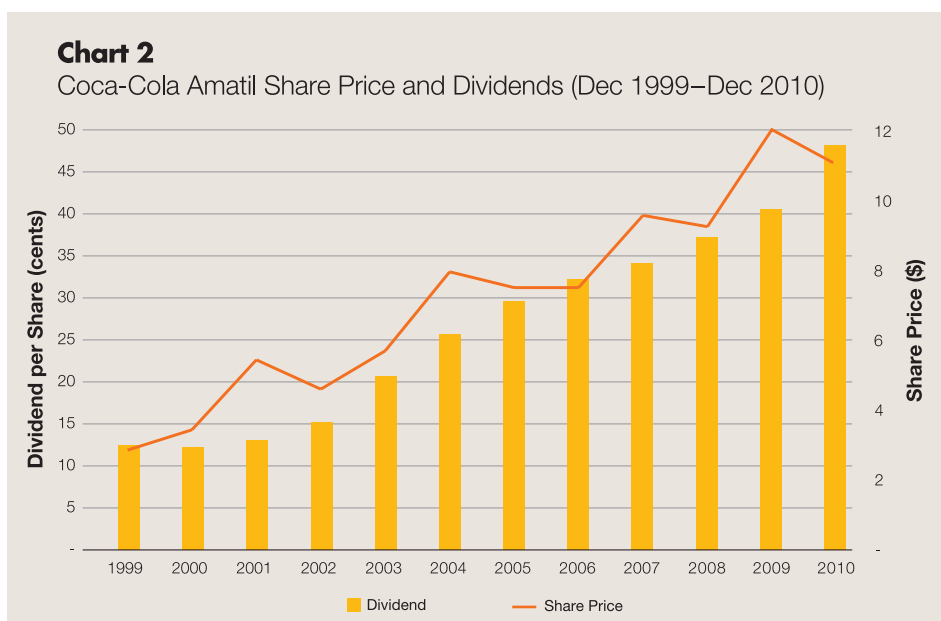
Because of this, shares can give you a steady stream of income, on top of potential gains in share price, which you can either use to fund your lifestyle or grow your wealth through reinvestment.

Chart 1 shows the contribution to total returns made by dividends historically. For example in the last 10 years, annualised return of the sharemarket has been 7.9%pa. Of this 4.5% pa, or 57%, was derived from dividends.



Source: Iress, Maple-Brown Abbott

MLC IncomeBuilder™ targets companies with the potential to deliver increased share price and income over time. Chart 2 shows the price and dividend history of Coca-Cola Amatil, a holding in the fund for over 5 years, and how it's grown in both capital value and dividend payments.



Source: Iress

# Dividend growth over time

MLC IncomeBuilder™ is made up of specifically selected companies that have historically generated growing dividends for their investors.

## How does this work?

Let's assume a company with \$100 worth of assets consistently makes a 10% profit each year.

The company pays half of this (\$5) as dividends to investors, and retains the rest (\$5) to grow its assets.

The following year, the company is worth \$105. If it makes a 10% profit again, this equals \$10.50 to be split between dividends and reinvestment.

While it may not seem a significant increase, if the company continues to follow this trend after 10 years, the assets of the company, and the dividends paid to investors will increase by over 50%.

## Business Model

Year	Business Assets	Profit (R.O.E)	Retained Earnings	Dividend
1	\$100	\$10	\$5	\$5
2	\$105	\$10.50	\$5.25	\$5.25
3	\$110.25	\$11	\$5.50	\$5.50
4	\$115.75	\$11.60	\$5.80	\$5.80
5	\$121.55	\$12.20	\$6.10	\$6.10
6	\$127.65	\$12.80	\$6.40	\$6.40
7	\$134.05	\$13.40	\$6.70	\$6.70
8	\$140.75	\$14	\$7.05	\$7.05
9	\$147.80	\$14.80	\$7.40	\$7.40
10	\$155.20	\$15.50	\$7.75	\$7.75

## Dividend growth Typical MLC IncomeBuilder™ shares

Income (\$) per annum per share (year to 30 June)														
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
National Australia Bank	0.94	1.02	1.12	1.23	1.35	1.47	1.63	1.66	1.66	1.67	1.82	1.94	1.46	1.52
Woolworths	0.17	0.17	0.20	0.25	0.30	0.36	0.42	0.48	0.55	0.66	0.83	0.96	1.09	1.19
ANZ	0.48	0.52	0.56	0.64	0.73	0.85	0.95	1.01	1.10	1.25	1.36	1.36	1.02	1.26
Coca-Cola Amatil	0.11	0.14	0.11	0.11	0.14	0.19	0.23	0.28	0.32	0.33	0.36	0.39	0.44	0.49
Commonwealth Bank	1.03	1.07	1.24	1.33	1.43	1.51	1.64	1.89	2.06	2.37	2.62	2.66	2.35	3.02
Fosters Group	0.11	0.12	0.14	0.15	0.16	0.18	0.19	0.20	0.21	0.23	0.25	0.26	0.27	0.27
Combined Income	2.84	3.04	3.37	3.71	4.11	4.56	5.06	5.52	5.90	6.51	7.24	7.57	6.63	7.75

Source: Iress

# Case study

## Gearing for the future

### MLC IncomeBuilder's™ income stream makes it ideal for gearing

With low turnover and growing income each year, MLC IncomeBuilder™ may be suitable for investors considering a gearing strategy to generate long-term wealth.

You can use the income from the fund to meet interest payments or to reinvest.

And, over the long term, shares within the fund are expected to increase in value, which provides capital growth.

### At 42, David Carter has been busily paying off his flat and saving for retirement through his super.

He's also managed to save \$100,000 which he wants to invest outside of super.

That way he can access his money if he needs to rather than committing all his savings to super.

David's financial adviser suggests borrowing \$100,000 and combining it with the \$100,000 he has saved and investing in MLC IncomeBuilder™.

The idea behind this is the fund should give David a growing, tax effective income stream, and he can use this to pay the interest on the loan, while benefiting from a greater exposure to the potential capital growth of the underlying Australian shares.

You can see in the table below, over 10 years, the potential benefits from having an equity loan for David are increased distributions, capital gains and franking credits, to the sum of nearly \$50,000.

	Without an equity loan	With an equity loan
Own capital	\$100,000	\$100,000
Equity loan	-	\$100,000
Total investment	\$100,000	\$200,000
Distributions	\$ 49,153	\$98,989
Capital value at the end of year 10	\$155,297	\$312,944
Total value at the end of year 10	\$204,450	\$411,933
Less borrowing costs	-	\$80,000
Less tax on distributions	\$ 25,007	\$50,361
Plus tax deduction on borrowing cost	-	\$30,800
Plus franking benefit	\$15,799	\$31,818
Less equity loan repayment	-	\$100,000
Net portfolio at the end of year 10*	\$195,242	\$244,190

#### Assumptions

- 10 year investment term
- Returns of 8.5% pa (4.5% growth, 4% income)
- 75% franking on income
- Interest rate on equity loan of 8% pa
- Marginal tax rate of 38.5% (including Medicare levy of 1.5%)
- No reinvestment of distributions.

# Designed for tax effective income

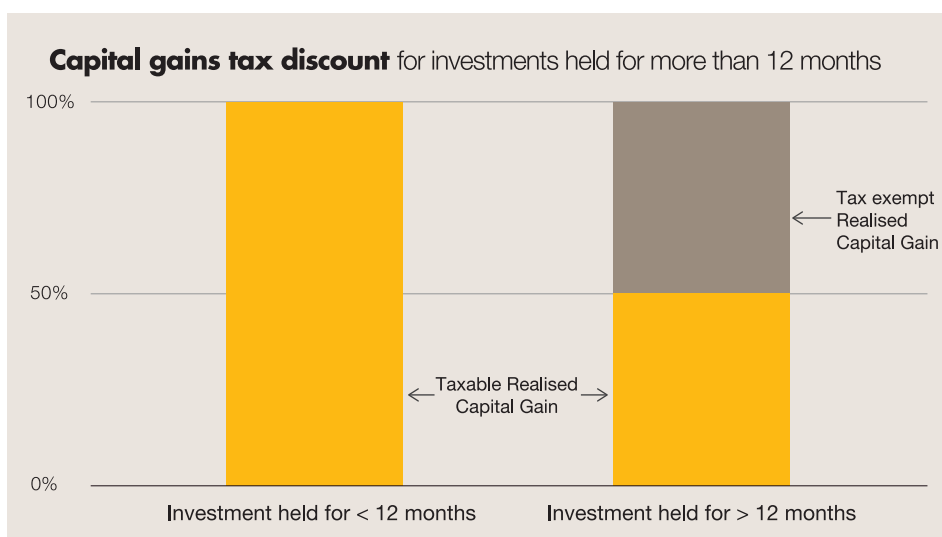
## Capital Gains

### MLC IncomeBuilder™ holds shares over longer time horizons

MLC IncomeBuilder™, unlike many other share funds, tends to hold stocks over longer periods of time.

This strategy helps to minimise transaction costs and reduce the tax liability for investors on realised capital gains.

You can see on the chart to the right the benefit of holding shares for longer than 12 months as the amount subject to capital gains tax is reduced by 50%.



## Franking

### MLC IncomeBuilder™ targets high franking companies

MLC IncomeBuilder™ targets companies that pay dividends with high levels of franking attached.

This reduces investors' tax liability for the dividends, as the companies have already paid tax on all, or a high proportion, of the dividend at the company tax rate of 30%.

As the table shows this is particularly beneficial or tax neutral for investors with incomes of \$80,000 or less.

### The benefit of franking credits

	Year Ending 30 June 2011 Taxable income thresholds				
Income thresholds	\$0-\$6,000	\$6,001-\$37,000	\$37,001-\$80,000	\$80,001-\$180,000	Over \$180,000
<b>Marginal rate of tax</b>	0%	15%	30%	37%	45%
<b>Dividend received (fully franked)</b>	\$700	\$700	\$700	\$700	\$700
<b>Franking credits received</b>	\$300	\$300	\$300	\$300	\$300
<b>Taxable dividend</b>	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
<b>Tax payable @ marginal rate</b>	\$0	\$150	\$300	\$370	\$450
<b>Less franking offset</b>	-\$300	-\$300	-\$300	-\$300	-\$300
<b>Net tax payable /(refundable)</b>	-\$300	-\$150	\$0	\$70	\$150
<b>Effective tax rate on marginal dividend income</b>	-30%	-15%	0%	7%	15%

#### Assumptions:

- Tax on dividend income is at the marginal rate of tax
- Medicare levy and surcharge are excluded from the calculations
- Any other tax offsets available are excluded from the calculations.

# Case study

## Franking benefits for retirement income

### Case study

**In 2000, Tracy, a 60 year old retiree, set up a pension scheme within her self-managed superannuation fund (SMSF).**

After speaking with her financial planner Tracy invested \$200,000 in MLC IncomeBuilder™ on 1 July 2000. This was to generate increased income for her retirement as part of her broader portfolio.

And, because the pension fund is exempt from tax, all the franking credits from the investment are credited back to Tracy's SMSF from the Australian Tax Office (ATO) each year.

During the year to 30 June 2001 the SMSF received \$5,761 in distributions with 132.3% franking from the MLC IncomeBuilder™ investment. The franking means the underlying companies have already paid \$3,267 in taxes, but as a pension fund doesn't need to pay tax the ATO refunded this amount providing further income for the year.

You can see in the table how over a 10 year period Tracy received an additional \$34,388 in income from refunded franking credits taking her total income to \$148,689 for 10 years.

	Investment capital	Distribution	Franking	Franking Credits	Total Income
2000	\$ 200,000	-	-	-	-
2001	\$ 216,494	\$ 5,761	132.3%	\$ 3,267	\$ 9,029
2002	\$ 204,339	\$ 4,892	103.6%	\$ 2,172	\$ 7,064
2003	\$ 193,079	\$ 6,572	96.4%	\$ 2,716	\$ 9,288
2004	\$ 219,778	\$ 7,073	96.4%	\$ 2,921	\$ 9,994
2005	\$ 255,018	\$11,125	73.5%	\$ 3,503	\$ 14,629
2006	\$ 272,192	\$17,284	51.4%	\$ 3,808	\$ 21,092
2007	\$ 315,318	\$22,766	43.8%	\$ 4,277	\$ 27,043
2008	\$ 221,165	\$19,760	50.5%	\$ 4,279	\$ 24,039
2009	\$ 189,844	\$10,565	88.8%	\$ 4,022	\$ 14,587
2010	\$ 211,044	\$ 8,502	93.9%	\$ 3,423	\$ 11,925

**Source:** MLC Wholesale IncomeBuilder™

# Where is your money invested?

Every day you come into contact with companies MLC IncomeBuilder™ invests in.

When you do your grocery shopping you probably head to the local shopping centre (Westfield Group) and fill a trolley at the supermarket (Woolworths). You might buy a jar of SPC jam (Coca-Cola Amatil) with the rest of your groceries.

At the checkout you flick through a few magazines (News Corp.) with the latest Hollywood gossip.

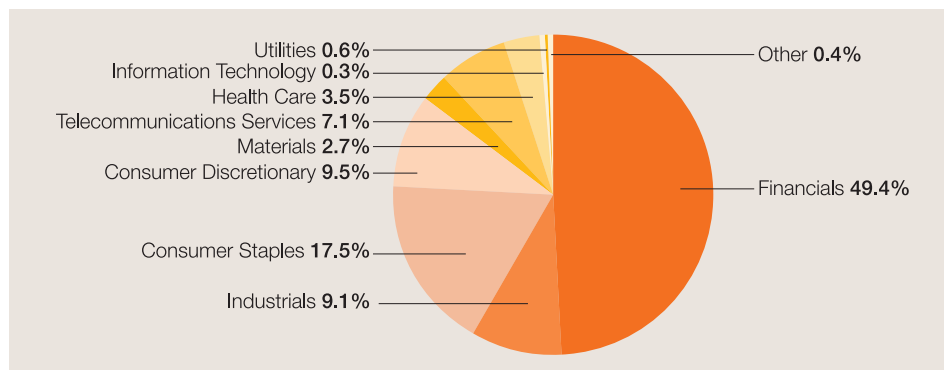
On the way back to the car you stop off to buy a t-shirt (Billabong).

Finally you pick up a bottle of red wine from Liquorland (Wesfarmers) and head home to catch the news (Seven Network).

## Diversification across different sectors

MLC IncomeBuilder™ is diversified across sectors such as finance, media, telecommunications and transport.

This provides exposure to sectors which perform differently at various stages of the economic cycle, and income that isn't reliant on a narrow range of stocks or industries.



Source: MLC Investments Limited as at 30 June 2011

Top 10 largest equity holdings			
1	ANZ	Financials	9.35%
2	Westpac	Financials	8.97%
3	NAB	Financials	8.48%
4	Commonwealth Bank	Financials	6.32%
5	Telstra	Telecommunication Services	6.07%
6	Wesfarmers Ltd	Consumer Staples	5.06%
7	Brambles Ltd	Industrials	3.76%
8	Fosters Group	Consumer Staples	3.05%
9	Woolworths	Consumer Staples	2.81%
10	Coca-Cola Amatil	Consumer Staples	2.51%

Source: MLC Investments Limited as at 30 June 2011

# Who manages MLC IncomeBuilder™?

MLC IncomeBuilder™ is managed by two investment managers, Maple-Brown Abbott and Vanguard Investments Australia.



Established in 1984, Maple-Brown Abbott Limited manages 70% of MLC IncomeBuilder™.

They use a value-orientated investment style to identify quality undervalued Australian companies with the potential to grow their dividends.

Key criteria they look at includes:

- Price to earnings
- Price to cashflow
- Grossed up dividend yield, and
- Balance sheet strength.

And, by purchasing shares in companies with a medium to long-term view, capital gains tax is reduced.

Maple-Brown Abbott is wholly owned by its staff and has over \$11.7 billion in funds under management as at 30 June 2011.



**Vanguard** INVESTMENTS™

Established in 1996, Vanguard Investments Australia Limited (Vanguard) manages 30% of MLC IncomeBuilder™.

Vanguard is a world leader in index-based share investing and passively manages a portfolio of 150 stocks, benchmarked against the S&P/ASX 200 Industrials Accumulation Index.

This ensures MLC IncomeBuilder™ has access to a well diversified range of quality companies expected to increase their dividends over time.

Vanguard is the Australian arm of the US based Vanguard Group and has approximately \$75 billion in funds under management in Australia as at 30 June 2011.

**Note:** The specialist investment management companies are current as at 30 June 2011. Investment managers are regularly reviewed and may be appointed or removed at any time.



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