



MLC Wholesale MLC MasterKey Investment Service MLC MasterKey Investment Service Fundamentals

Annual distribution commentary, June 2014

1. Distributions for FY2014

The table below sets out the cents per unit (cpu) distributions paid for the June 2014 quarter and for the full 2014 financial year (1 July 2013 to 30 June 2014) for the MLC Wholesale funds, including those available in MLC MasterKey Investment Service Fundamentals and some available in MLC MasterKey Investment Service.

All MLC Wholesale funds listed in the table below, other than Class B funds, are available in MLC MasterKey Investment Service Fundamentals. The Class B funds are available in MLC MasterKey Investment Service.

For a breakdown of the taxation components of the distribution for the 2014 financial year, please refer to the '[MLC Wholesale Trusts – Distribution Tax Components for the Year Ending June 2014](#)'. This document is also available on mlcinvestmenttrust.com.au

Commentary on each fund's distribution is in section 3.

More information on the performance of each fund is available on the Fund Profile Tool on mlcinvestmenttrust.com.au (for direct investments in a fund) and on mlc.com.au (for funds available through the MLC MasterKey Investment Service and MLC MasterKey Investment Service Fundamentals). The performance information is updated monthly.

Fund	Quarter cpu	Full year cpu (yield) ¹				
	June 2014	2013/14	2012/13	2011/12	2010/11	2009/10
MLC Horizon 1 – Bond Portfolio	1.33	2.51 (2.5%)	3.14 (3.1%)	2.89 (2.9%)	5.41 (5.5%)	4.14 (4.3%)
MLC Horizon 2 – Income Portfolio	1.07	2.45 (2.5%)	3.51 (3.8%)	3.39 (3.7%)	5.12 (5.7%)	4.35 (5.1%)
MLC Horizon 3 – Conservative Growth Portfolio	1.49	2.46 (2.6%)	2.83 (3.2%)	2.75 (3.1%)	4.89 (5.6%)	4.81 (5.8%)
MLC Horizon 4 – Balanced Portfolio	1.84	2.73 (2.9%)	2.71 (3.2%)	2.62 (3.1%)	4.95 (6.0%)	4.16 (5.3%)
MLC Horizon 5 – Growth Portfolio	1.85	2.72 (3.0%)	2.36 (3.0%)	2.85 (3.4%)	5.18 (6.4%)	3.41 (4.5%)
MLC Horizon 6 – Share Portfolio	2.54	2.54 (2.9%)	1.56 (2.2%)	1.78 (2.3%)	5.09 (6.9%)	3.63 (5.3%)
MLC Horizon 7 – Accelerated Growth Portfolio	2.21	2.21 (2.3%)	0.91 (1.2%)	1.03 (1.2%)	5.68 (7.1%)	5.45 (7.4%)
MLC Inflation Plus – Conservative Portfolio	1.99	2.11 ² (2.05%)	n/a	n/a	n/a	n/a
MLC Inflation Plus – Moderate Portfolio	3.09	3.17 ² (3.06%)	n/a	n/a	n/a	n/a
MLC Inflation Plus – Assertive Portfolio Class A	2.05	2.05 (2.4%)	0.95 (1.3%)	3.00 (4.0%)	4.22 (6.0%)	7.66 (11.5%)

¹ The distribution yield for a fund is the annual cpu divided by the unit price released the day after the final distribution for the previous financial year.

²Partial year, as the fund was launched in October 2013.

MLC Wholesale

MLC MasterKey Investment Service

MLC MasterKey Investment Service Fundamentals



Annual distribution commentary, June 2014

Fund	Quarter cpu	Full year cpu (yield) ¹				
	June 2014	2013/14	2012/13	2011/12	2010/11	2009/10
MLC Inflation Plus – Assertive Portfolio Class B	1.44	1.44 (1.7%)	0.18 (0.2%)	1.84 (2.4%)	3.32 (4.7%)	6.78 (10.1%)
MLC Australian Share Fund	2.92	4.78 (5.4%)	2.96 (3.9%)	3.41 (3.9%)	3.66 (4.4%)	2.69 (3.4%)
MLC Australian Share Value Style Fund	1.60	3.39 (4.3%)	3.86 (5.7%)	4.64 (5.7%)	3.41 (4.3%)	2.90 (3.9%)
MLC Australian Share Growth Style Fund	1.56	3.72 (3.6%)	2.71 (3.0%)	2.75 (2.7%)	3.96 (4.2%)	2.62 (2.9%)
MLC IncomeBuilder	5.48	10.99 (6.7%)	10.60 (7.8%)	6.87 (4.8%)	6.63 (4.7%)	5.77 (4.2%)
MLC-Vanguard Australian Share Index Fund	2.83	5.81 (5.2%)	5.11 (5.2%)	1.77 ³ (-)	n/a	n/a
MLC Global Share Fund	1.45	1.45 (1.9%)	0.46 (0.8%)	0.69 (1.1%)	0.68 (1.1%)	0.66 (1.2%)
MLC Hedged Global Share Fund Class A	0.60	0.6 (0.9%)	0.06 (0.1%)	0.01 (0.0%)	6.59 (13.2%)	9.53 (18.7%)
MLC Hedged Global Share Fund Class B	0.57	0.57 (0.9%)	0.06 (0.1%)	0.01 (0.0%)	5.93 (12.0%)	8.58 (17.1%)
MLC Global Share Value Style Fund	1.61	1.61 (1.9%)	1.05 (1.6%)	1.04 (1.5%)	0.88 (1.3%)	0.50 (0.8%)
MLC Global Share Growth Style Fund	1.54	1.54 (1.4%)	0.23 (0.3%)	0.20 (0.2%)	0.08 (0.1%)	0.07 (0.1%)
MLC-Platinum Global Fund	-	-	-	0.84 (1.2%)	0.79 (1.1%)	4.50 (6.8%)
MLC Property Securities Fund	0.57	2.13 (4.4%)	1.65 (3.9%)	2.09 (5.3%)	1.78 (4.6%)	2.74 (7.7%)
MLC Global Property Fund Class A	0.74	0.75 (1.4%)	0.75 (1.7%)	0.11 (0.2%)	8.72 (20.8%)	5.58 (15.6%)
MLC Global Property Fund Class B	0.86	0.87 (1.4%)	0.09 (0.2%)	0.13 (0.2%)	9.50 (19.1%)	5.30 (12.7%)
MLC Diversified Debt Fund Class A	1.14	2.72 (2.7%)	4.54 (4.5%)	4.66 (4.9%)	4.44 (4.8%)	4.81 (5.4%)
MLC Diversified Debt Fund Class B	0.67	1.42 (1.5%)	3.37 (3.4%)	3.72 (3.9%)	3.44 (3.7%)	3.95 (4.4%)

³ Partial year.

2. Key factors affecting distributions in FY2014

MLC's share funds (except for MLC IncomeBuilder), and MLC's multi-asset portfolios with high allocations to shares, are designed to provide capital growth. Although they make distributions, their main objective is to increase the value of their assets for investors, rather than to deliver an income stream.

Here are the key factors that affected distributions in FY2014.

The weaker Australian dollar

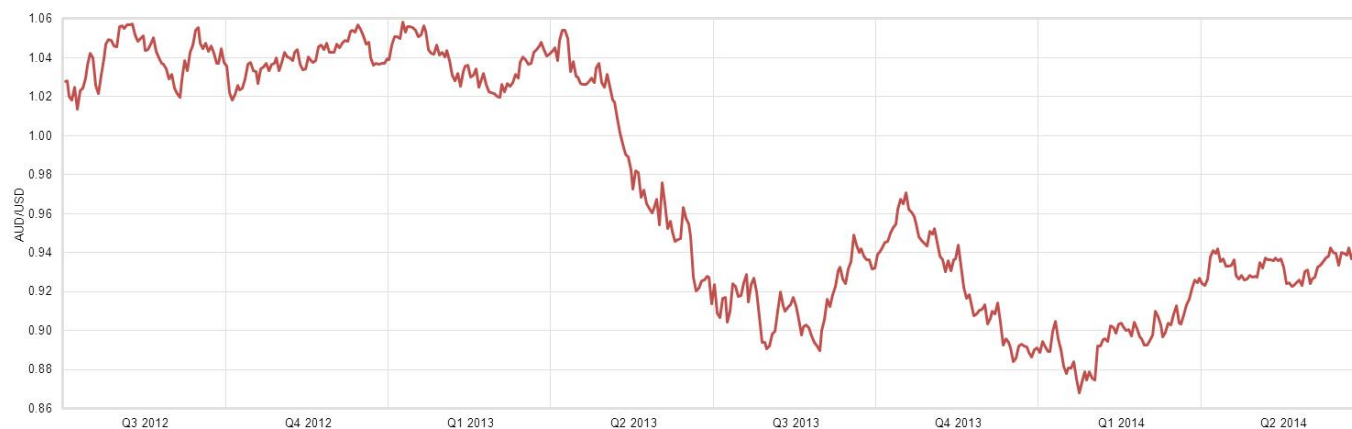
Most of our multi-asset funds hold overseas shares. We hedge part of these holdings to reduce the funds' exposure to movements in the Australian dollar (AUD).

The Australian dollar rose overall against other major currencies like the US dollar (USD) in FY2014. However, as the chart below shows, its value fluctuated much more and in a lower range than in FY2013.

The overall weakness in the AUD during the year meant that income distributions from unhedged global shares, and the amount received if these shares were sold, were worth more in Australian dollars. For funds that have a large allocation to unhedged global shares, this increased distributions. For funds with large hedged allocations, this produced currency hedging losses that decreased distributions.

The FAQ in section 4 explains more about hedging.

Australian dollar to US dollar exchange rate, 1 July 2012 to 30 June 2014



Source: FactSet.

Capital losses carried forward

Capital losses had a significant impact on the level of distributions. During the global financial crisis (GFC) of 2008-9 and the first few years afterwards, markets were weak and volatile. Most funds suffered large capital losses when they sold investments. Capital losses are kept in a fund and are carried forward until they can be offset against capital gains.

Share and property markets across the world have generally strengthened this year and many funds have generated capital gains. In some funds, those gains largely offset the losses carried forward. Other funds still had carried forward losses at the end of FY2014, and these will continue to reduce distributions of capital gains until they are offset in future years.

However, most funds distributed concessional capital gains, which were generated by investments in underlying trusts. Concessional capital gains have favourable tax treatment.

Foreign losses

Due to tax rules, some foreign losses from previous years (such as foreign exchange losses) continued to be carried forward this year. This had a small impact on distributions from some funds with overseas investments. You can read more about foreign losses in the FAQ in section 4.

Australian shares

The Australian share market continued its robust performance in FY2014, with the S&P/ASX200 market index rising 17% over the year. Although this was lower than its very strong 23% rise in FY2013, it meant that when fund managers sold shares, they often received prices higher than the original purchase prices of the shares, and would lock in, or 'realise', capital gains.

Many funds that invest in Australian shares had capital losses carried forward from previous years. These losses offset most of this year's capital gains. The capital gains that were distributed this year were mainly concessional capital gains, which have favourable tax treatment.

Across the Australian market, company earnings generally met expectations. Some companies chose to return capital to their shareholders. Dividend payout ratios generally remained high, and many companies increased their dividends. For most of MLC's Australian share funds, this led to an increase in dividend income.

Global shares

Overall, international share markets rose strongly over FY2014 as economic data improved and investors became more optimistic about the global outlook. The performance of individual countries' share markets varied widely.

Many companies raised their dividends over the year. However, overseas companies tended to increase dividends at lower rates than Australian companies. As a result, the expenses of a fund mostly offset dividend income from global shares.

The rising markets meant many funds realised capital gains when they sold investments. In most cases these gains were offset by capital losses carried forward in the funds. The capital gains that were distributed were mainly concessional capital gains, which have favourable tax treatment.

Australian property securities

The market performance of listed Australian real estate investment trusts (AREITs) was strong this year, at around 11%, but lower than their very strong performance of around 24% in FY2013. Earnings growth from REITs was lower than in the broader share market.

AREITS continued to be an attractive investment, as the income yields on many AREITs remained higher than on bonds or term deposits. Rental income remained solid and distribution payout ratios from AREITs were therefore stable.

Global property

In most global markets, operating conditions for real estate continued to be favourable this year. This was reflected in solid returns from listed real estate markets.

Fixed income

Cash

Income from cash was lower this year because the Reserve Bank of Australia cut their cash rate target from 2.75% to 2.50% in FY2014.

Short-term bonds

Fixed income strategies with short terms to maturity (up to two years) produced lower levels of income this year than in FY2013. Income from short-term bonds remained low both in Australia and overseas. The weaker AUD produced currency hedging losses that decreased distributions from funds invested in overseas bonds.

Longer-term bonds

For fixed income strategies with longer terms to maturity, distributions decreased in FY2014. Although returns from longer-term bonds were solid, they were lower than last year, so distributions were lower. The weaker AUD produced currency losses that decreased distributions from funds invested in overseas bonds.

3. Fund commentaries

MLC's multi-asset portfolios

The MLC Horizon and Inflation Plus portfolios are a range of multi-manager, multi-asset class funds. The income distributions for these funds are largely based on the income from the underlying asset classes described above. The allocations to the asset classes are different for each of the portfolios.

MLC Horizon 1 – Bond Portfolio

MLC Horizon 1 – Bond Portfolio made a FY2014 distribution of 2.51 cpu, compared to 3.14 cpu for FY2013. The fund is focused on capital preservation and therefore invests in fixed income securities with a relatively short term to maturity. Income from Australian and overseas bonds and cash decreased from already low levels – cash and bond yields have been low for a number of years. Please refer to section 2 for the other factors that affected cash and short term bonds this year.

MLC Horizon 2 – Income Portfolio

MLC Horizon 2 – Income Portfolio made a FY2014 distribution of 2.45 cpu, compared to 3.51 cpu for FY2013. Similar to FY2013, half of the fund's distribution was from its investments in bonds and cash. Income from the fund's investments in bonds, shares and property was less than last year. The weaker AUD produced currency hedging losses that further reduced the distribution. Please refer to section 2 for the other factors that affected distributions this year.

At the end of FY2014, the fund still had carried forward losses.

MLC Horizon 3 – Conservative Growth Portfolio

MLC Horizon 3 – Conservative Growth Portfolio made a FY2014 distribution of 2.46 cpu, compared to 2.83 cpu for FY2013. Income from the fund's investments in Australian and overseas bonds decreased further from last year's low levels. Income from share and property investments was also less. In addition, the weaker AUD produced currency hedging losses that reduced the distribution. The distribution of capital gains was higher than FY2013 but all were concessional capital gains, which have favourable tax treatment. Please refer to section 2 for the other factors that affected distributions this year.

At the end of FY2014, the fund still had carried forward losses.

MLC Horizon 4 – Balanced Portfolio

MLC Horizon 4 – Balanced Portfolio made a FY2014 distribution of 2.73 cpu, compared to 2.71 cpu for FY2013. Income from the fund's investments in Australian and overseas bonds decreased further from last year's low levels. Income from share and property investments was also less. In addition, the weaker AUD produced currency hedging losses that decreased the distribution. A third of the distribution was capital gains, higher than FY2013. However, all were concessional capital gains, which have favourable tax treatment. Please refer to section 2 for the other factors that affected distributions this year.

At the end of FY2014, the fund still had carried forward losses.

MLC Horizon 5 – Growth Portfolio

MLC Horizon 5 – Growth Portfolio made a FY2014 distribution of 2.72 cpu, compared to 2.36 cpu for FY2013. The distribution increased because the fund had higher capital gains this year. Although a third of the distribution was capital gains, all were concessional capital gains, which have favourable tax treatment. Income from share, property and bond investments was less than FY2013. Please refer to section 2 for the other factors that affected distributions this year.

At the end of FY2014, the fund still had carried forward losses.

MLC Horizon 6 – Share Portfolio

MLC Horizon 6 – Share Portfolio made a FY2014 distribution of 2.54, compared to 1.56 cpu for FY2013. The distribution increased because the fund had higher capital gains this year. Although almost half of the distribution was capital gains, all were concessional capital gains, which have favourable tax treatment. Income from share and property investments was less than FY2013. Please refer to section 2 for the other factors that affected distributions this year.

At the end of FY2014, the fund still had carried forward losses.

MLC Horizon 7 – Accelerated Growth Portfolio

The distribution for MLC Horizon 7 – Accelerated Growth Portfolio for FY2014 was 2.21 cpu, compared to 0.91 cpu for FY2013. The distribution increased because the fund had higher capital gains this year. Although two thirds of the distribution was capital gains, all were concessional capital gains, which have favourable tax treatment. Much of the income from share investments was offset against the fund's gearing costs (such as interest). Please refer to section 2 for the other factors that affected distributions this year.

At the end of FY2014, the fund still had carried forward losses.

MLC Inflation Plus – Conservative Portfolio

MLC Inflation Plus – Conservative Portfolio was launched during the financial year, in October 2013. The distribution for FY2014 was 2.11 cpu. Due to the defensive positioning of the fund during the year, most of the distribution was from its investments in Australian and overseas bonds and cash. More than half of the capital gains distributed were concessional, which have favourable tax treatment. Please refer to section 2 for the other factors that affected distributions this year.

MLC Inflation Plus – Moderate Portfolio

MLC Inflation Plus – Moderate Portfolio was launched during the financial year, in October 2013. The distribution for FY2014 was 3.17 cpu. Due to the defensive positioning of the fund during the year, a third of the distribution was from its investments in Australian and overseas bonds and cash. Most of the capital gains distributed have favourable tax treatment. Please refer to section 2 for the other factors that affected distributions this year.

MLC Inflation Plus – Assertive Portfolio (Classes A and B)

The distribution for MLC Inflation Plus – Assertive Portfolio was:

- Class A – 2.05 cpu for FY2014, compared to 0.95 cpu for FY 2013, and
- Class B – 1.44 cpu for FY2014, compared to 0.18 cpu for FY 2013.

The distribution increased because the fund had higher capital gains this year. Most of the distribution was capital gains and they were all concessional capital gains, which have favourable tax treatment. Income generated from the fund's investment in Australian and overseas shares and bonds was similar to last year. Please refer to section 2 for the other factors that affected distributions this year.

Australian share funds

MLC Australian Share Fund

The fund's distribution increased from 2.96 cpu in FY2013 to 4.78 this year, mainly because the fund had higher capital gains. All the capital gains were concessional capital gains, which have favourable tax treatment. These capital gains were due to the factors affecting Australian shares outlined on page 4. The fund's dividend income also increased and it was mostly fully franked.

At the end of FY2014, the fund still had carried forward losses.

MLC Australian Share Value Style Fund

The fund's distribution decreased from 3.86 cpu in FY2013 to 3.39 this year, mainly due to a decrease in dividend income. While the fund had higher capital gains this year, all were concessional capital gains, which have favourable tax treatment.

At the end of FY2014, the fund still had carried forward losses.

MLC Australian Share Growth Style Fund

The fund's distribution increased from 2.71 cpu in FY2013 to 3.72 this year, due to an increase in dividend income. Most of this year's distribution consisted of fully franked dividends.

At the end of FY2014, the fund still had carried forward losses.

MLC IncomeBuilder

The fund provided a total distribution of 10.99 cpu for the financial year, with underlying income of 7.72 cpu. While the total distribution is 4% higher than last year, the underlying income is 16% higher than last year's underlying distribution of 6.66 cpu.

Dividend income increased, as a number of the companies the fund invests in raised their dividend payout rates in FY2014.

The capital gains portion of the annual distribution remained fairly high this year, at 3.27 cpu, though lower than in the extremely strong share market of FY2013. However, most of the capital gains were concessional capital gains, which have favourable tax treatment. Capital gains were realised during the year due to:

- normal buying and selling of investments, and
- trading activity by the fund's managers. The fund has had full active management (rather than one active and one passive manager) since January 2013 and as we anticipated, this has led to a slight increase in turnover.

For more information about the distribution of MLC IncomeBuilder please refer to the MLC IncomeBuilder annual distribution commentary, which will be available on mlcinvestmenttrust and mlc.com.au in the week starting 14 July.

MLC-Vanguard Australian Share Index Fund

The fund's distribution increased from 5.11 cpu in FY2013 to 5.81 cpu this year. The fund had higher capital gains this year, but most were concessional capital gains, which have favourable tax treatment. The fund's dividend income also increased and it was mostly fully franked. More information on the factors affecting Australian shares is outlined on page 4.

Global share funds

MLC Global Share Fund

The fund's distribution of 1.45 cpu was higher than last year's distribution of 0.46 cpu. Half the distribution was concessional capital gains, which have favourable tax treatment. These capital gains were due to the factors affecting global shares outlined on page 4.

At the end of FY2014, the fund still had carried forward losses.

MLC Hedged Global Share Fund (Classes A and B)

The distribution for MLC Hedged Global Share Fund was:

- Class A – 0.60 cpu for FY2014, compared to 0.06 cpu for FY2013, and
- Class B – 0.57 cpu for FY2014, compared to 0.06 cpu for FY2013.

The distribution was all concessional capital gains, which have favourable tax treatment. These capital gains were due to the factors affecting global shares outlined on page 4.

MLC Global Share Value Style Fund

The fund's distribution of 1.61 cpu was higher than last year's distribution of 1.05 cpu. Almost half of the distribution was capital gains, which was higher than FY2013. However, all were concessional capital gains, which have favourable tax treatment. These capital gains are due to the factors affecting global shares outlined on page 4.

At the end of FY2014, the fund still had carried forward losses.

MLC Global Share Growth Style Fund

The fund's distribution of 1.54 cpu was higher than last year's distribution of 0.23 cpu. The fund's distribution was all concessional capital gains, which have favourable tax treatment. These capital gains are due to the factors affecting global shares outlined on page 4.

At the end of FY2014, the fund still had carried forward losses.

MLC-Platinum Global Fund

As for FY2013, the fund paid no distribution of income in FY2014. The fund generated substantial capital gains in FY2014, which were offset against capital losses carried forward. Please refer to section 2 for the other factors that affected distributions this year.

At the end of FY2014, the fund still had carried forward losses.

Property securities

MLC Property Securities Fund

The fund's FY2014 distribution increased to 2.13 cpu from 1.65 cpu the previous year. This was mostly due to an increase in rental income from investments in REITs. Almost a third of the distribution consisted of income that was tax deferred, concessional capital gains or franked dividends. Please refer to page 4 for the other factors that affected distributions this year.

At the end of FY2014, the fund still had carried forward losses.

MLC Global Property Fund (Classes A and B)

The distribution for MLC Global Property Fund was:

- Class A – 0.75 for FY2014, which was the same as for FY2013, and
- Class B – 0.87 cpu for FY2014, compared to 0.09 cpu for FY2013.

Both Class A and B were affected by the factors affecting global property securities outlined on page 4. All of the income distribution consisted of tax-free income and concessional capital gains.

Fixed income

MLC Diversified Debt Fund (Classes A and B)

The distribution for the MLC Diversified Debt Fund was:

- Class A – 2.72 cpu for FY2014, compared to 4.54 cpu for FY2013, and
- Class B – 1.42 cpu for FY2014, compared to 3.37 cpu for FY2013.

The main reason the distribution was lower was due to the factors affecting longer-term bonds outlined on page 5.

4. Frequently asked questions

How is the level of distributions determined?

Distributions are made up of income from the underlying investments held by the managed fund and are paid to investors after fees are deducted. These investments may be shares, property, bonds or cash, or a combination of these. This means a distribution could include interest earned, franked and unfranked dividends, tax deferred income, rental income and any realised capital gains (after deducting any capital losses) made from selling investments (which are usually distributed in the last quarter of the financial year). For global investments, currency movements resulting in changes in the value of hedging contracts can also affect income distributions.

If share prices rose in FY2014, why didn't distributions for all share funds increase?

The share prices of the fund's investments influence the unit price of the fund, but not the distributions paid. The fund's distribution depends on the income from the fund's investments (see the question above).

How do prior foreign losses impact future distributions?

In 2009, there was a change in the tax treatment of foreign losses (such as currency losses). Until then, a fund could only offset losses on foreign hedging contracts against foreign hedging contract gains. This meant many of our global funds had accumulated substantial foreign losses.

The change in the tax rules allows a fund to offset foreign losses against any income. However, to deal with the foreign losses accumulated before 1 June 2009, the tax rules permit a fund to offset a maximum of only 20% of those losses each year for up to five years.

These rules ended in the 2014 income year, effectively allowing foreign losses to be applied against any income. However, some of the foreign losses incurred before 1 June 2009 were carried forward into this year and may have reduced distributions from funds that have hedged global exposures.

How does currency hedging help protect you from currency movements?

If you invest in funds that hold overseas assets, such as global shares, property or bonds, your income and capital are exposed to currency fluctuations. This can impact your return positively or negatively, depending on your exposure to various currencies and movements in their exchange rates.

If a fund has an AUD currency hedging strategy, it helps reduce the impact of currency movements on global exposures and smooth out the overall return on your investment. However, the income and growth components of the overall return, particularly for share and property investments, can still be quite volatile.

When MLC hedges exposure to global investments, our intention is to remove most of the effect of currency losses and gains from your global exposures. That way, the total return you receive depends on the performance of the underlying investment – not the movement in value of the AUD.



How does hedging impact income distributions?

Currency hedging can help smooth the impact of foreign currency fluctuations on an investor's total return. The length of MLC's hedging contracts varies, but is typically one month. Any hedging gains or losses the fund realises when the hedging contract expires impact the income distributions for investors. Hedging gains are treated as income, while hedging losses are offset against other sources of income such as interest, dividends and hedging gains.

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.

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