



MLC MasterKey Investment Service

MLC MasterKey Unit Trust

End of year distribution commentary, 2021 financial year

2 June 2021

Background

On Monday, 31 May 2021 the last cash distribution for the 2021 financial year (FY2021) was made to investors in the funds that comprise the MLC MasterKey Unit Trust, including those offered in the MLC MasterKey Investment Service (MKIS)¹.

Investors can expect the unit price for the funds in Table 1 (Funds) to fall by the amount of the distribution.

If you invest through a platform, your distribution will be allocated to you by the platform. Investors who have their distributions paid into their bank account, rather than reinvested into their fund, can expect the income in their account within two weeks after the distribution.

The estimated tax components will be available mid June 2021 at mlc.com.au. Final tax components will be provided in 2020/21 MLC MasterKey tax statements, usually sent to investors in August, to assist in the preparation of their tax return.

Appendix 1 provides the full financial year (1 June to 31 May) distributions for the last 10 years.

Commentary for full year cash distributions for FY2021

Commentary on the final cents per unit (cpu) distributions, compared to recent years' distributions is provided in Table 1.

Table 1 – Commentary on cash distributions for FY2021

MLC MasterKey Unit Trust fund (APIR code)	Cpu for May 2021 qtr	Full year cpu		Full year cash distribution for FY2021 commentary
		2020/21	2019/20	
MLC Horizon 2 – Income Portfolio (MLC0021AU)	3.02	3.02	0.92	<p>While the Fund's <u>distributions in previous quarters</u> of FY2021 were zero, the May distribution is significantly higher than FY2020. <u>Currency gains from a stronger Australian dollar</u>, and a <u>fee reduction</u>, resulted in the large distribution in May. <u>Interest, dividends, and rental income</u> weren't sufficiently high to pay distributions in earlier quarters.</p> <p>The Fund continued to have <u>carried forward capital losses</u> at the end of FY2021, resulting in no realised capital gains to distribute.</p> <p>Please click on the links for more information.</p>

¹ MLC MasterKey Investment Service also offers the following MLC Wholesale funds, which have a June year end: MLC Inflation Plus – Assertive Portfolio, MLC Diversified Debt Fund, and MLC Global Property Fund. As a result, this commentary does not cover those funds.

MLC MasterKey Investment Service and MLC MasterKey Unit Trust



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MLC MasterKey Unit Trust fund (APIR code)	Cpu for May 2021 qtr	Full year cpu		Full year cash distribution for FY2021 commentary
		2020/21	2019/20	
MLC Horizon 3 – Conservative Growth Portfolio (MLC0393AU)	5.45	5.45	3.13	<p>While the Fund's <u>distributions in previous quarters</u> of FY2021 were zero, the May distribution is significantly higher than FY2020. <u>Currency gains from a stronger Australian dollar</u>, and a <u>fee reduction</u>, resulted in the large distribution in May. <u>Interest, dividends, and rental income</u> weren't sufficiently high to pay distributions in earlier quarters.</p> <p>Income from the Fund's fixed income investments was higher than FY2020 due to strong returns from investments in Australian inflation-linked bonds and global high yield bonds.</p> <p>Please click on the links for more information.</p>
MLC Horizon 4 – Balanced Portfolio (MLC0023AU)	9.74	9.74	6.55	<p>While the Fund's <u>distributions in previous quarters</u> of FY2021 were zero, the May distribution is moderately higher than FY2020. <u>Currency gains from a stronger Australian dollar</u>, and a <u>fee reduction</u>, resulted in the large distribution in May. Income from investments in <u>shares, fixed income, and real estate investment trusts</u> wasn't sufficiently high to pay distributions in earlier quarters.</p> <p>Income from the Fund's fixed income investments was higher than FY2020 due to strong returns from investments in Australian inflation-linked bonds and global high yield bonds.</p> <p>Please click on the links for more information.</p>
MLC Horizon 5 – Growth Portfolio (MLC0024AU)	9.34	9.34	6.59	<p>While the Fund's <u>distributions in previous quarters</u> of FY2021 were zero, the May distribution is moderately higher than FY2020. <u>Currency gains from a stronger Australian dollar</u>, and a <u>fee reduction</u>, resulted in the large distribution in May. Income from investments in <u>shares, fixed income, and real estate investment trusts</u> wasn't sufficiently high to pay distributions in earlier quarters.</p> <p>Income from the Fund's fixed income investments was higher than FY2020 due to strong returns from investments in Australian inflation-linked bonds and global high yield bonds.</p> <p>Please click on the links for more information.</p>
MLC Horizon 6 – Share Portfolio (MLC0394AU)	8.92	8.92	6.87	<p>The distribution is moderately higher than FY2020. <u>Currency gains from a stronger Australian dollar</u>, and a <u>fee reduction</u>, resulted in the large distribution.</p> <p>Please click on the links for more information.</p>

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MLC MasterKey Unit Trust fund (APIR code)	Cpu for May 2021 qtr	Full year cpu		Full year cash distribution for FY2021 commentary
		2020/21	2019/20	
MLC Horizon 7 – Accelerated Growth Portfolio (MLC0448AU)	4.44	4.44	0.30	<p>The distribution is significantly higher than FY2020. <u>Currency gains from a stronger Australian dollar</u>, profits from exposure to emerging markets shares, and a <u>fee reduction</u> resulted in the large distribution.</p> <p>The Fund continued to have <u>carried forward capital losses</u> at the end of FY2021, resulting in no realised capital gains to distribute.</p> <p>Please click on the links for more information.</p>
MLC IncomeBuilder (MLC0097AU)	10.39	11.85	16.10	<p>The Fund's distribution is moderately lower than FY2020 due to:</p> <ul style="list-style-type: none"> • a decrease in the Fund's underlying income, comprising <u>dividends</u>, real estate investment trust income, interest and other income, and • a decrease in capital gains. <p>For more information please refer to our article '<u>MLC IncomeBuilder – The improving outlook for dividends</u>'. MLC IncomeBuilder's annual distribution commentary will also be available mid June 2021 on mlc.com.au.</p> <p>Please click on the links for more information.</p>
MLC Australian Share Fund (MLC0015AU)	17.17	17.47	3.88	<p>While <u>dividend income has reduced</u>, the distribution is significantly higher than FY2020 due to an increase in realised capital gains mainly because:</p> <ul style="list-style-type: none"> • the Fund no longer has carried forward capital losses which had significantly reduced the distributions in previous years • our investment managers repositioned their portfolios to take advantage of opportunities arising during the share market volatility and subsequent recovery, and • one of our investment managers, Bennelong, decided to no longer manage institutional mandates so we replaced them with Vinva, a manager we've used in our MLC Horizon portfolios since 2012. <p>Please click on the link for more information.</p>
MLC-Vanguard Australian Share Index Fund (MLC0014AU)	6.55	7.49	11.65	<p>The Fund's distribution is significantly lower than FY2020 due to:</p> <ul style="list-style-type: none"> • a <u>decrease in dividend income</u>, and • a decrease in realised capital gains compared to FY2020. <p>Please click on the link for more information.</p>

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MLC MasterKey Unit Trust fund (APIR code)	Cpu for May 2021 qtr	Full year cpu		Full year cash distribution for FY2021 commentary
		2020/21	2019/20	
MLC Property Securities Fund (MLC0013AU)	0.52	0.52	1.30	<p>The Fund's distribution is moderately lower due to a <u>decrease in income from real estate investment trusts</u>.</p> <p>The Fund continued to have <u>carried forward capital losses</u> at the end of FY2021, resulting in no realised capital gains to distribute.</p> <p>Please click on the links for more information.</p>
MLC Global Share Fund (MLC0017AU)	-	-	0.16	<p>At the end of FY2021, the Fund has <u>carried forward revenue losses and capital losses</u> so it doesn't have any income to pass through to investors.</p> <p>Please click on the links for more information.</p>
MLC-Platinum Global Fund (MLC0060AU)	19.27	19.27	6.81	<p>The Fund's distribution is significantly higher than FY2020 due to an increase in realised capital gains. Stocks the Fund sold, realising capital gains, during the year included:</p> <ul style="list-style-type: none"> • Tencent Holdings Ltd, a Chinese multinational technology company providing internet-related services and products including social network platforms, music, web portals, e-commerce, mobile games, internet services, payment systems, smartphones, and multiplayer online games. • Alpha Investment Inc., a US real estate investment services company offering origination, credit, underwriting, structuring, capital markets, and asset management services. • Skyworks Solutions, Inc., a US wireless semiconductor company that designs and manufactures radio frequency and complete semiconductor system solutions for mobile communications applications. <p>Listed global companies tend to have lower dividend yields than Australian companies, and therefore most of the distributions from global share funds are usually realised capital gains.</p>

The above amounts are historical cash distributions and are not indicative of future distributions.

Key factors affecting cash distributions in FY2021

The MLC Horizon portfolios are a range of multi-asset class funds tailored to meet the needs of investors with different return expectations, time frames and tolerances for volatility. The income distributions for these funds are largely based on the income from the underlying asset classes. The allocations to the asset classes are different for each of the MLC Horizon portfolios.

MLC's share funds (except for MLC IncomeBuilder), and the MLC Horizon portfolios with high allocations to shares, are designed to provide capital growth over the long term. Although many of these growth-focussed funds make



frequent distributions, their main objective is to increase the value of their assets for investors, rather than to deliver a regular income stream. As a result, their income tends to fluctuate from year to year.

Here are the key factors affecting distributions in FY2021.

Why didn't some funds distribute in each quarter of FY2021?

This financial year was highly unusual with many funds having insufficient interest, dividends, and rental income to pass through to investors as income distributions in the August, November and February quarters. However, most funds had realised capital gains and currency gains to pass through to investors, so distributions were made in the May quarter. Realised capital gains and currency gains can vary significantly from year to year and are distributed in the May quarter, at the end of the financial year.

A few of the growth-focused funds normally distribute income once each year, in May.

More information on interest, dividends, rental income, and currency gains follows.

Currency gains from a stronger Australian dollar

MLC Horizon portfolios' investments include overseas shares and fixed income. We hedge part of these holdings to reduce the funds' exposure to movements in the Australian dollar (AUD).

Over FY2021, the AUD strengthened compared with other major currencies like the US dollar (USD). The AUD rose from around USD 0.66 at the end of May 2020 to around USD 0.77 at the end of May 2021. The AUD also rose relative to the value of the British pound and the euro.

As a result, funds with AUD hedging generated gains, which increased the distributions. Currency hedging gains accumulate during the year and are all paid in the May distribution. Our [Income Distributions FAQs](#), Question 5, has more information on hedging.

Dividend income has reduced

FY2021 was a challenging year for investors who rely on Australian shares for income. The unexpected emergence of COVID-19 forced the Federal and state governments to implement a range of measures throughout the year to limit the spread of the virus. While these measures were ultimately successful, they resulted in a significant contraction in economic activity and lower profits for many Australian companies across a range of industries. Sharply lower earnings led to many companies choosing to cut dividends.

With effective management of infections and the commencement of the vaccination program both here and overseas, the market is looking to the future with more optimism. Australia's economy has staged a remarkable recovery. The economic decline was not as deep as forecast and the recovery has occurred quicker than expected. As a result, the recent profit reporting period yielded better results than those we saw in August/September last year with some improvement in dividends by a range of companies.

While the economic recovery means the outlook for corporate earnings has improved, many companies are acting with caution before returning to pre-COVID dividend payments. Some industries and companies have performed well despite COVID-19, but many remain vulnerable as government support programs like JobKeeper are withdrawn. These companies are preferring to retain capital rather than paying it to shareholders and continuing to restrict dividend payments until the outlook for their industry and the success of the vaccination program becomes clearer. As a result, dividend income passed through to investors will take some time to return to pre-COVID levels.

Real Estate Investment Trusts' income has reduced

Income distributions from real estate investment trusts (REITs), similarly to dividends, deteriorated because of the reduction in economic activity created by COVID-19.

As economies start to recover and COVID-19 disruptions ease, rent collections are improving, enabling many REITs to provide earnings or distribution guidance for the year ahead.

Income from fixed income has been solid

While most fixed income investments produced low levels of interest income this year because bond yields and interest rates have remained low, inflation-linked bonds and high yield bonds experienced solid gains on strongly rising prices. As a result, those MLC Horizon portfolios with higher allocations to inflation-linked bonds and high yield bonds, experienced reasonably solid income distributions from fixed income this year.

Fee reductions led to an increase in distributions

All the funds included in this distribution commentary experienced a drop in their Management Fee of 0.41% pa. Distributions are paid to investors after fees are deducted so, from 2 November 2020 when fees were reduced, more income has been available to distribute.

Carried forward capital losses

A fund's capital losses significantly reduce the level of realised capital gains distributed. Weak and volatile markets from events such as the GFC and COVID-19 results in most funds suffering large capital losses when they sell investments. Capital losses are kept in the fund and are carried forward until they can be offset against future capital gains.

The funds with carried forward capital losses at the end of FY2021 are:

- MLC Horizon 2 – Income Portfolio
- MLC Horizon 7 – Accelerated Growth Portfolio
- MLC Property Securities Fund
- MLC Global Share Fund

Other income such as dividends and interest income continue to be distributed by funds with carried forward capital losses because only capital gains are offset against capital losses.

Carried forward revenue losses

Revenue losses occur when a fund's expenses are higher than its income. Revenue income includes dividends and interest and is also impacted by foreign currency gains (and losses) and returns from certain assets. However, revenue income doesn't include capital gains. Revenue losses reduce the level of distributions and are carried forward until they can be offset against future revenue income.

The MLC Global Share Fund had carried forward revenue losses at the end of FY2021.

Next steps

As the cash distribution was on 31 May 2021, there are a few weeks before the end of the Australian taxation year on 30 June.

The estimated tax components for the funds will be available mid June 2021 at mlc.com.au, however these can change. Final tax components are provided in investors' MLC MasterKey tax statements, usually sent in August.

If you have questions, please speak to your financial or tax adviser.

We also have frequently asked questions on income distributions available on mlc.com.au.

More information on the performance of each fund is available on the Fund Profile Tool on mlc.com.au and is updated quarterly.

Appendix 1: Financial year distribution history

Table 2 shows the cpu distributions paid for the May 2021 quarter along with the full financial year (1 June to 31 May) distributions for the last 10 years.

Table 2 – Cash distribution history

Fund (APIR code)	31 May 2021 qtr cpu	Full year cpu (yield) ²	Full year cpu (yield) ²								
			2020/21	2019/20	2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13
MLC Horizon 2 – Income Portfolio (MLC0021AU)	3.02	3.02 (2.7%)	0.92 (0.8%)	1.37 (1.2%)	1.08 (0.9%)	2.35 (2.1%)	3.29 (2.8%)	2.36 (2.2%)	1.77 (1.7%)	2.98 (3.0%)	2.86 (2.9%)
MLC Horizon 3 – Conservative Growth Portfolio (MLC0393AU)	5.45	5.45 (5.5%)	3.13 (3.0%)	3.80 (3.7%)	4.70 (4.5%)	2.33 (2.3%)	5.38 (5.1%)	2.53 (2.6%)	1.50 (1.6%)	1.95 (2.3%)	1.85 (2.2%)
MLC Horizon 4 – Balanced Portfolio (MLC0023AU)	9.74	9.74 (6.7%)	6.55 (4.2%)	6.19 (4.0%)	1.41 (1.0%)	3.76 (2.7%)	9.52 (6.4%)	4.86 (3.5%)	2.36 (1.9%)	2.49 (2.3%)	2.45 (2.2%)
MLC Horizon 5 – Growth Portfolio (MLC0024AU)	9.34	9.34 (7.1%)	6.59 (4.7%)	3.93 (2.9%)	1.15 (0.9%)	3.55 (2.9%)	9.33 (7.0%)	4.10 (3.4%)	2.04 (1.9%)	1.75 (1.9%)	2.42 (2.5%)
MLC Horizon 6 – Share Portfolio (MLC0394AU)	8.92	8.92 (9.0%)	6.87 (6.3%)	7.19 (6.6%)	4.59 (4.4%)	3.29 (3.4%)	8.78 (8.2%)	3.10 (3.2%)	1.55 (1.8%)	0.76 (1.1%)	1.04 (1.4%)
MLC Horizon 7 – Accelerated Growth Portfolio (MLC0448AU)	4.44	4.44 (3.5%)	0.30 (0.2%)	2.13 (1.7%)	0.22 (0.2%)	3.64 (3.5%)	10.60 (9.0%)	2.62 (2.6%)	1.28 (1.5%)	0.13 (0.2%)	0.19 (0.3%)
MLC IncomeBuilder (MLC0097AU)	10.39	11.85 (6.7%)	16.10 (6.9%)	22.84 (9.7%)	12.46 (4.9%)	17.19 (6.9%)	16.54 (5.9%)	23.25 (8.6%)	13.80 (5.6%)	19.48 (9.8%)	8.34 (3.9%)
MLC Australian Share Fund (MLC0015AU)	17.17	17.47 (9.8%)	3.88 (2.0%)	9.36 (5.0%)	3.63 (2.1%)	11.43 (6.6%)	8.58 (4.7%)	7.92 (4.5%)	6.12 (3.8%)	3.58 (2.7%)	4.46 (2.9%)
MLC-Vanguard Australian Share Index Fund (MLC0014AU)	6.55	7.49 (4.2%)	11.65 (5.7%)	11.34 (5.8%)	15.22 (7.8%)	55.48 (24.0%)	9.94 (4.0%)	13.23 (5.4%)	12.62 (5.6%)	8.88 (4.8%)	9.19 (4.3%)
MLC Property Securities Fund (MLC0013AU)	0.52	0.52 (0.6%)	1.30 (1.2%)	2.27 (2.4%)	2.66 (2.8%)	3.30 (3.4%)	3.11 (3.6%)	3.00 (4.2%)	2.29 (3.2%)	1.54 (2.7%)	2.40 (4.3%)
MLC Global Share Fund (MLC0017AU)	-	-	0.16 (0.1%)	0.47 (0.2%)	-	4.83 (3.0%)	24.45 (13.1%)	2.01 (1.3%)	1.16 (0.9%)	0.13 (0.1%)	0.02 (0.02%)
MLC-Platinum Global Fund (MLC0060AU)	19.27	19.27 (11.0%)	6.81 (3.8%)	14.37 (7.0%)	24.66 (12.1%)	10.41 (5.7%)	20.73 (9.5%)	30.52 (15.3%)	-	-	-

The above amounts are historical cash distributions and are not indicative of future distributions.

² 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. A fund's total return includes unit price movements (ie capital growth) and its income distribution. Total returns are available at mlc.com.au



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