MLC MasterKey Investment Service
MLC MasterKey Unit Trusts

MLC Distributions Update – November 2009

The following table outlines the cents per unit (cpu) distributions paid for the November 2009 quarter and for each of the MLC MasterKey Unit Trust investment options (including MLC MasterKey Investment Service[1] investments in the MLC MasterKey Unit Trust funds). A Q&A is also provided after the individual fund commentaries to answer more general queries you may have on distributions.

Fund	Nov 09 Quarter cpu	Aug 09 Quarter cpu	Nov 08 Quarter cpu
MLC Horizon 1 – Bond Portfolio (only through MKIS)	**0.67**	0.00	1.54
MLC Horizon 2 – Income Portfolio	**0.64**	0.16	1.42
MLC Horizon 3 – Conservative Growth Portfolio	**0.32**	0.00	0.89
MLC Horizon 4 – Balanced Portfolio	**0.22**	0.00	1.04
MLC Horizon 5 – Growth Portfolio	**0.13**	0.00	0.85
MLC Horizon 6 – Share Portfolio[2]	-	-	-
MLC Horizon 7 – Accelerated Growth Portfolio[2]	-	-	-
MLC Australian Share Fund	**1.03**	0.19	1.92
MLC Australian Share Value Style Fund	**0.61**	0.37	1.26
MLC Australian Share Growth Style Fund	**0.64**	0.00	0.27
MLC IncomeBuilder™	**1.85**	1.15	2.78
MLC Global Share Fund[2]	-	-	-
MLC Global Share Value Style Fund[2]	-	-	-
MLC Global Share Growth Style Fund[2]	-	-	-
MLC Property Securities Fund	**0.35**	0.66	0.92
MLC-Platinum Global Fund[2]	-	-	-
MLC Capital International Global Share Fund[2]	-	-	-
MLC-Vanguard Share Index Fund	**1.89**	0.85	2.38

Individual Fund Commentaries

MLC Horizon Series

The distributions for these portfolios are largely based on the exposure to and distributions from the underlying asset sectors.

[1] Please note, MLC MasterKey Investment Service Fundamentals invests in MLC Wholesale funds, which have a June year end. Similarly, the MLC Long-Term Absolute Return Portfolio, MLC Diversified Debt Fund, MLC Global Property Fund and MLC Hedged Global Share Fund in MLC MasterKey Investment Service are accessed via the MLC Wholesale funds, and therefore also have a June year end. These products are therefore not covered by this communication.
[2] These investment options only distribute at the end of the financial year in May 2010.

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MLC Horizon 1 –Bond Portfolio

The portfolio delivered a quarterly distribution of 0.67 cpu, compared to a nil distribution for the August quarter. This comprised of interest earned on the portfolios' investments in cash (approximately 30% of the portfolio) and predominantly highly rated Australian and global bonds. The turnaround of bond markets saw an increase in interest income being received from the bonds in the portfolio, as compared to last quarter. However, because cash rates are lower compared to last year, cash is contributing less to your distribution.

MLC Horizon 2–Income Portfolio

The majority of the quarterly distribution of 0.64 cpu was comprised of interest earned from the allocation to Australian and global bonds and cash (approximately 70% of the portfolio). The allocations to property (approximately 13% of the portfolio) and Australian shares (approximately 12%) also contributed to the distribution. The distribution is still lower compared to the same time last year due mainly to the lower interest earned on debt securities and the lower dividends from Australian shares.

MLC Horizon 3 –Conservative Growth Portfolio

The majority of the quarterly distribution of 0.32 cpu was comprised of interest earned from the allocation to Australian and global bonds (approximately 50% of the portfolio). The 21% allocation to Australian shares also contributed approximately one quarter of the distribution. The relatively small distribution is representative of lower dividends from shares and interest received on the debt portfolios compared to last year. The turnaround of bond markets saw stronger income received from domestic nominal bonds within the portfolio compared to last quarter.

MLC Horizon 4 –Balanced Portfolio

The quarterly distribution of 0.22 cpu comprised of interest earned on the portfolios' investments in bonds (approximately 30% of the portfolio) and dividends from Australian shares (approximately 31% of the portfolio). The relatively small distribution is representative of lower company dividends and interest received on the debt portfolios. Any income received from global shares (approximately 32% of the portfolio), after adjusting for the currency impacts from hedging, are held until the end of the year so are not represented within the inter-year distributions.

MLC Horizon 5 –Growth Portfolio

The quarterly distribution of 0.13 cpu comprised of interest earned on the portfolios' investments in bonds (approximately 15% of the portfolio), dividends from Australian shares (approximately 35% of the portfolio) and a small portion from tax deferred income. The low distribution is representative of lower company dividends and interest received on the debt portfolios. Any income received from global shares (approximately 44% of the portfolio), after adjusting for the currency impacts from hedging, are held until the end of the year so are not represented within the inter-year distributions.

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MLC Horizon 6 –Share Portfolio
MLC Horizon 7 –Accelerated Growth Portfolio
These funds only distribute at the end of the financial year in May 2010.

Australian Shares

MLC Australian Share Fund
MLC Australian Share Growth and Value Style Funds
MLC-Vanguard Share Index Fund
Lower company dividends are still contributing to a lower distribution for the quarter. However, the distribution has increased significantly from last quarter which is historically a lower dividend payment period. Many companies have a June end reporting period, so dividends are generally paid within this quarter's distribution.

MLC IncomeBuilder™
Lower company dividends are still contributing to the lower distribution of 1.85 cpu for the quarter compared to last year. However, the distribution has increased from last quarter which is historically a lower dividend payment period. Many companies have a June end reporting period, so dividends are generally paid within this quarter's distribution.

Global Shares

The global share funds only distribute at the end of the financial year in May 2010.

Property Securities

MLC Property Securities Fund
The quarterly distribution of 0.35 cpu, although low when compared to the same time last year, is consistent with property trusts preserving their capital. Most trusts have therefore significantly reduced the distributions they are paying.

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This Q&A may answer some of your questions about distributions for MLC MasterKey Investment Service and MLC MasterKey Unit Trust investment options and why they've been reduced this quarter.

Q. What are distributions dependent on?
A. Distributions are made up of income from the underlying investments held by the managed fund and paid to investors once fees are deducted. These investments could be shares, property, debt securities and/or cash. As such the distribution could include interest earned, franked and unfranked dividends, tax deferred income, rental income, and any realised capital gains (after offsetting any capital losses) made from selling investments that typically occur in the last quarter of the financial year. Currency can also impact income distributions on investments.

Q. Why were distributions low for many funds for the November 2009 quarter?
A. Distributions for investors have dropped significantly in many funds because tough economic conditions in the past year have resulted in:

- a decline in the value of the Australian dollar in 2008. Funds that invest overseas and hedge currency exposure to the Australian dollar suffered currency losses. Recent gains in the Australian dollar have helped to reduce these losses, but haven't been enough to completely offset these prior losses (this only impacts global property and global debt for the quarter as global shares distribute income at the end of the financial year).
- lower company earnings. This means funds which invest in shares have received low levels of dividends so there's less to distribute to investors, and
- lower rates of interest on cash investments.

Q. Why are company dividend levels so low?
A. Lower company dividends could be a result of a number of factors including pressure on profit margins, poor sales and the need for companies to fund their businesses by retaining profits. Companies may choose not to pay dividends as it's cheaper for them to keep any profits, rather than raise money by borrowing. The graph below shows the continued fall in domestic company earnings to 30 September 2009. It's worth noting that even though equity markets have rebounded significantly, company earnings are still lagging behind. This reduction in company earnings reflects the lower dividends passed through to investors.

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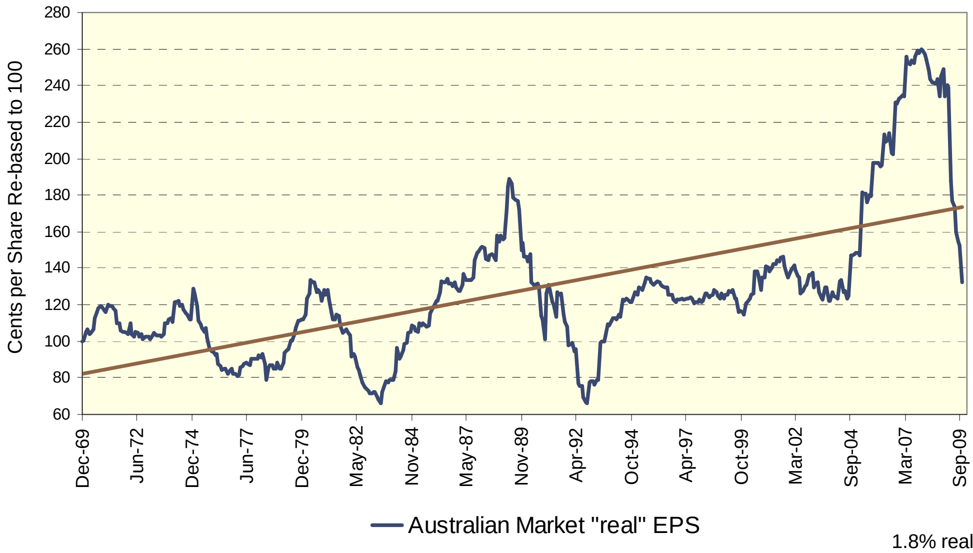
Australian corporate earnings



1.8% real growth p.a.

Source: UBS

Q. What about the recent market recovery?

A. The market has been improving since March 2009 with the Australian dollar strengthening against most major currencies. Because of this, funds with investments overseas that hedge currency exposure, such as hedged global shares, global property and global debt securities have made recent gains from Australian dollar hedging contracts. However, these gains have mostly been offset against the currency losses from last year.

Q. How does currency hedging provide protection from currency movements?

A. If you invest in funds that own non-Australian securities such as global shares, listed property and bonds, you'll be exposed to the impact of currency fluctuations on both your income and capital. This can impact the return you receive, both positively and negatively, depending on what currency exposure you have. Funds that have a currency hedging strategy help manage the impact of currency movements on your global exposures to smooth out the overall return on your investment, which includes distributions and capital growth.

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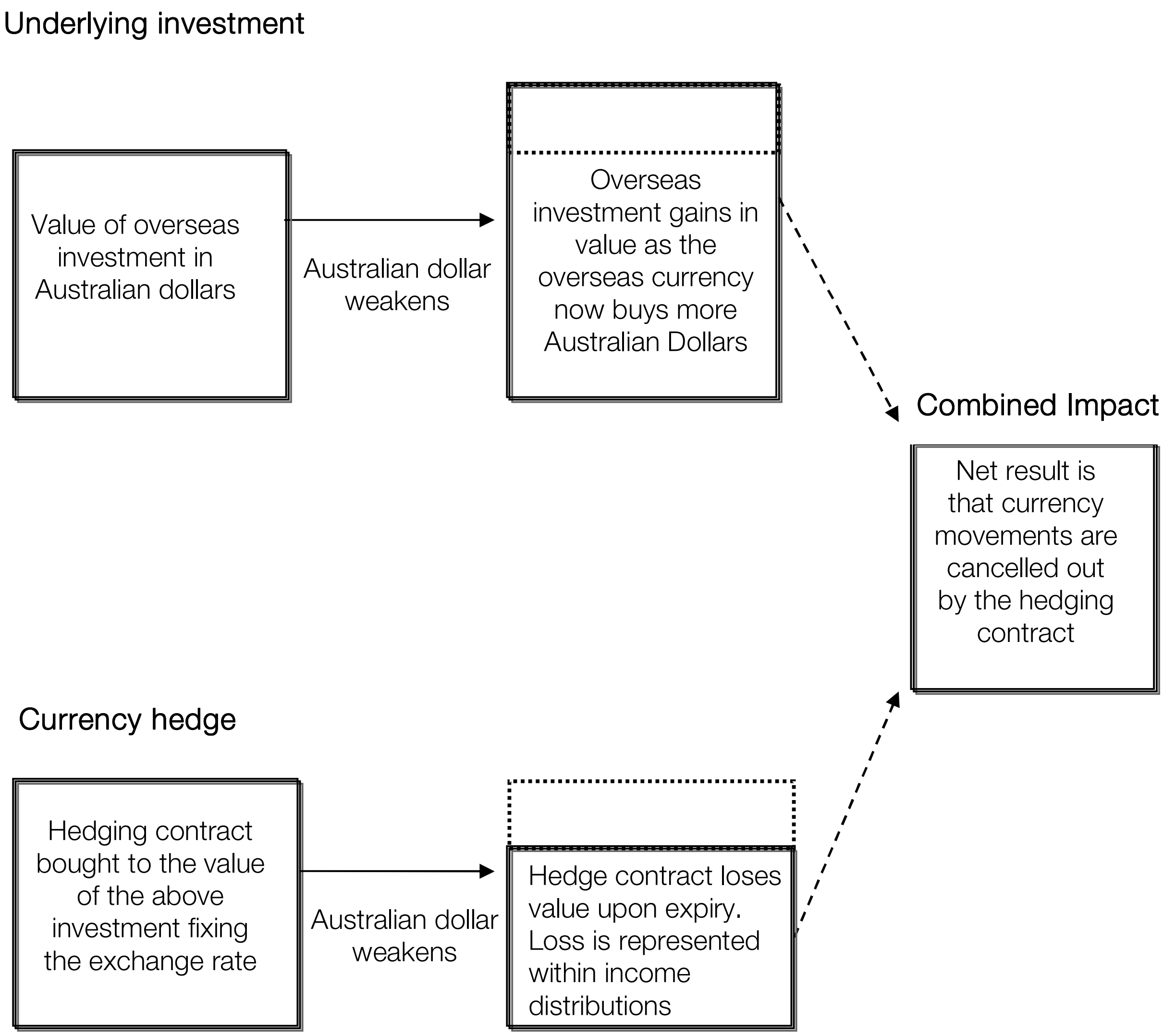
When hedging your exposure to global investments, the intent is to remove the effect of currency losses and gains from your global exposures so returns are based on the performance of the underlying investment only.[3]

The example below explains how the hedging contract largely removes the impact of currency when the Australian dollar depreciates or weakens in value.[3]



[3]In practice, the value of the hedging contract may differ slightly from the underlying investment value so the investment may not be 100% hedged at all times.

When the Australian dollar rises, as we've seen recently, the reverse occurs. The value of unhedged global assets held by Australian investors fall, but the value of the sold hedge contract rises. This increase in the hedge contract value compensates for the fall in value of the unhedged non-Australian assets.

The total return you receive is therefore only dependant on the performance of the underlying investments.

Q. How does currency hedging then impact income distributions?

A. Currency hedging can help smooth the impact of foreign currency fluctuations on an investor's total return. At MLC, the length of the hedging contract can vary and typically will last for three months. Any hedging gains or losses the fund realises when the hedging contract expires impact the income distributions for investors. Hedging gains or losses are treated as income and used to offset against other sources of income such as interest.

Last year, we saw the Australian dollar falling quite dramatically through the year against major currencies. The Australian dollar fell sharply against the US dollar from highs above 98c to lows around 60c between July and October 2008, representing a decline in value of 40%. When the Australian dollar falls in value, the value of unhedged global assets owned by an Australian investor will increase in value. However, this also results in a loss on the sold hedge contract.

Recent gains in the Australian dollar have helped to reduce these losses from hedging contracts, but they still haven't been enough to completely offset these prior losses.

Q. How long will lower distributions last?

A. We are confident that as the market continues to recover, so will the levels of company dividends and in turn, investor's distributions. However, a recovery to previous levels of distributions will take time to return, as funds that have hedged currency exposure to the Australian dollar still have currency losses on those contracts carried over from last year.

More Q&As with Michelle Heinrich, Senior Investment Specialist, are available on the Market Watch website to answer any general questions you may have on distributions.

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Important Information: