



MLC Distributions Update – December 2009

The following table outlines the cents per unit (cpu) distributions paid for the December 2009 quarter for each of the MLC Wholesale funds (including MLC MasterKey Investment Service and MLC MasterKey Investment Service Fundamentals investments in the MLC Wholesale funds).

Fund	Dec 09 Quarter cpu	Sep 09 Quarter cpu	Dec 08 Quarter cpu
MLC Horizon 1 – Bond Portfolio	0.79	0.19	1.33
MLC Horizon 2 – Income Portfolio	0.76	0.33	1.41
MLC Horizon 3 – Conservative Growth Portfolio	0.52	0.18	1.11
MLC Horizon 4 – Balanced Portfolio	0.35	0.18	0.95
MLC Horizon 5 – Growth Portfolio	0.30	0.18	0.90
MLC Horizon 6 – Share Portfolio ¹	-	-	-
MLC Horizon 7 – Accelerated Growth Portfolio ¹	-	-	-
MLC Long-Term Absolute Return Portfolio Class A ¹	-	-	-
MLC Long-Term Absolute Return Portfolio Class B ¹	-	-	-
MLC Australian Share Fund	0.82	0.29	1.10
MLC Australian Share Value Style Fund	0.77	0.49	1.36
MLC Australian Share Growth Style Fund	0.84	0.20	0.61
MLC IncomeBuilder™	1.56	1.06	2.16
MLC Global Share Fund ¹	-	-	-
MLC Hedged Global Share Fund Class A ¹	-	-	-
MLC Hedged Global Share Fund Class B ¹	-	-	-
MLC Global Share Value Style Fund ¹	-	-	-
MLC Global Share Growth Style Fund ¹	-	-	-
MLC Property Securities Fund	0.25	0.55	0.43
MLC Global Property Securities Fund Class A	0.00	0.00	0.03
MLC Global Property Securities Fund Class B	0.00	0.00	0.02
MLC Diversified Debt Fund Class A	0.39	0.13	1.58
MLC Diversified Debt Fund Class B	0.17	0.01	1.48
MLC Platinum Global Fund ¹	-	-	-
MLC-Capital International Global Share Fund ¹	-	-	-

¹ These investment options only distribute at the end of the financial year in June 2010.



MLC Wholesale MLC MasterKey Investment Service Fundamentals (MKISF)

Individual Fund Commentaries:

MLC Horizon Series

MLC Horizon 1 – Bond Portfolio

The portfolio delivered a quarterly distribution of 0.79 cpu, compared to a nil distribution for the September quarter. This consists mainly of interest earned on the portfolios' investments in cash (approximately 30% of the portfolio) and highly rated Australian and global bonds. Cash rates are lower when compared to last year which results in cash contributing less to your distribution.

MLC Horizon 2 – Income Portfolio

The majority of the quarterly distribution of 0.76 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. The distribution is lower compared to the same time last year due mainly to the lower interest earned on cash and certain debt securities as well as lower dividends from Australian shares.

MLC Horizon 3 – Conservative Growth Portfolio

The majority of the quarterly distribution of 0.52 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 to the distribution. The relatively small distribution is representative of lower dividends from shares and lower interest received on the debt portfolios compared to last year.

MLC Horizon 4 – Balanced Portfolio

The quarterly distribution of 0.35 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 lower interest received on the debt portfolios. Any income received from global shares (approximately 32% of the portfolio) is held until the end of the financial year and, therefore, is not represented within the inter-year distributions.

MLC Horizon 5 – Growth Portfolio

The quarterly distribution of 0.30 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 relatively small distribution is representative of lower company dividends and lower interest received on the debt portfolios. Any income received from global shares (approximately 44% of the portfolio) is held until the end of the financial year and, therefore, is not represented within the inter-year distributions.



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MLC Horizon 6 – Share Portfolio

This portfolio only distributes at the end of the financial year in June.

MLC Horizon 7 – Accelerated Growth Portfolio

This portfolio only distributes at the end of the financial year in June.

MLC Long-Term Absolute Return Portfolio (Class A and B)

This portfolio only distributes at the end of the financial year in June.

Australian Shares

MLC Australian Share Fund

The quarterly distribution of 0.82 cpu is significantly higher than the September quarter but remains lower than the same time last year. Lower company dividends continue to translate into a smaller distribution for investors. The increase from last quarter's distribution is expected, as more companies pay dividends during the December quarter than during the September quarter.

MLC Australian Share Growth Style Fund

The quarterly distribution of 0.84 cpu is significantly higher than the September quarter and is also higher than the same time last year. The increase from last quarter's distribution is expected, as more companies pay dividends during the December quarter than during the September quarter. The December 2008 distribution was unusually low due to income losses offsetting income during that period. This explains the increase from the corresponding distribution last year.

MLC Australian Share Value Style Fund

The quarterly distribution of 0.77 cpu is significantly higher than the September quarter but remains lower than the same time last year. Lower company dividends continue to translate into a smaller distribution for investors. The increase from last quarter's distribution is expected, as more companies pay dividends during the December quarter than during the September quarter.

MLC IncomeBuilder™

As expected the quarter's distribution of 1.56 cpu is lower when compared to the same quarter last year. This is expected, as many companies are taking the opportunity to preserve capital and rebuild their balance sheets which translates to lower dividends for investors. On a rolling 12 month basis the distribution is down 25% when compared with the corresponding 12 month period ending December 2008. While this decline is not ideal it is consistent with the decline in dividends being experienced by the broader Australian market.



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Global Share

MLC Global Share Fund

This Fund only distributes at the end of the financial year in June.

MLC Global Share Growth Style Fund

This Fund only distributes at the end of the financial year in June.

MLC Global Share Value Style Fund

This Fund only distributes at the end of the financial year in June.

Property Securities

MLC Property Securities Fund

The quarterly distribution of 0.25 cpu, is low when compared to the same time last year. Dividend payments from global property securities are down significantly, as many companies take the opportunity to preserve capital and re-build their balance sheets. This translates to lower dividends for investors.

MLC Global Property Fund (Class A and B)

This Fund did not distribute this quarter. Dividend payments from global property securities are down significantly, as many companies take the opportunity to preserve capital and re-build their balance sheets. This translates to lower dividends for investors. During the quarter the interest and dividends received from the Fund's investments were not sufficient to offset the Fund's expenses.

Debt

MLC Diversified Debt Fund (Class A and B)

The quarterly distribution of 0.39 and 0.17 cpu respectively is low when compared with the same quarter last year, however it is significantly higher when compared to the September quarter. The distribution is mainly comprised of interest received from the portfolio's investments in highly rated Australian and global nominal bonds.



MLC Wholesale
MLC MasterKey Investment Service Fundamentals (MKISF)

This Q&A may answer some more general questions you may have on distributions for MLC MasterKey Investment Service, MLC MasterKey Investment Service Fundamentals and MLC Wholesale investment options.

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 December 2009 quarter?

A. Distributions for investors have dropped significantly in many funds because tough economic conditions in the past year have resulted in:

- o 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).
- o 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
- o 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. 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.

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.



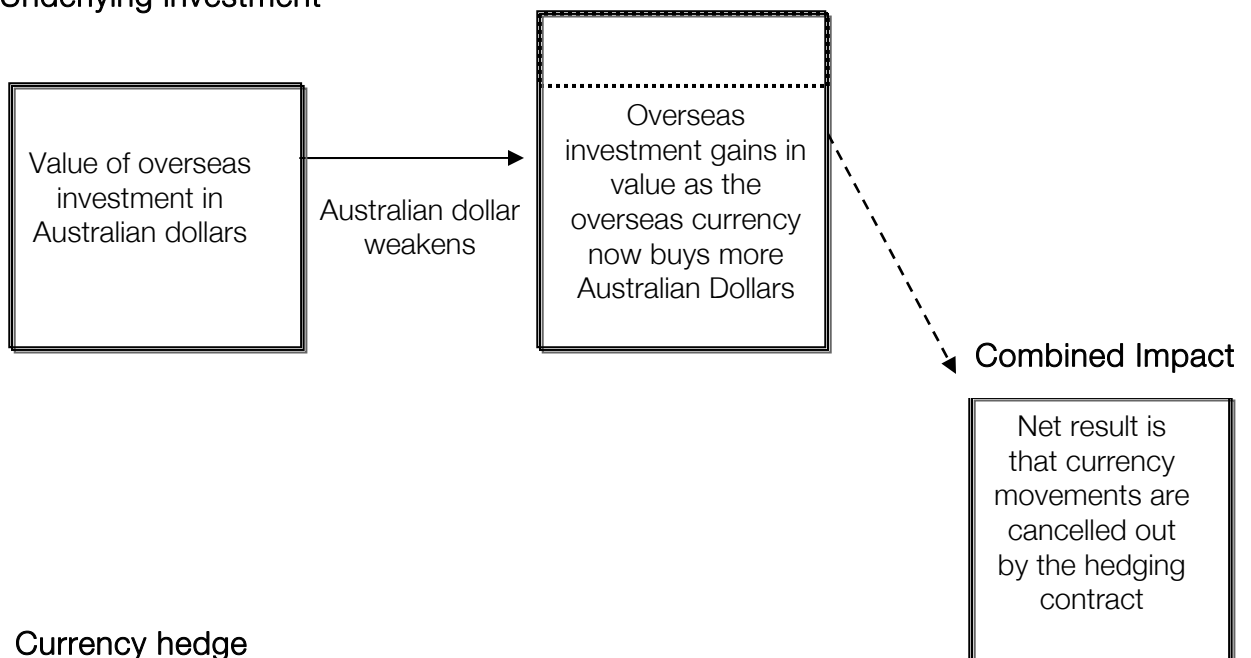
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Q. How does currency hedging provide protection from currency movements?

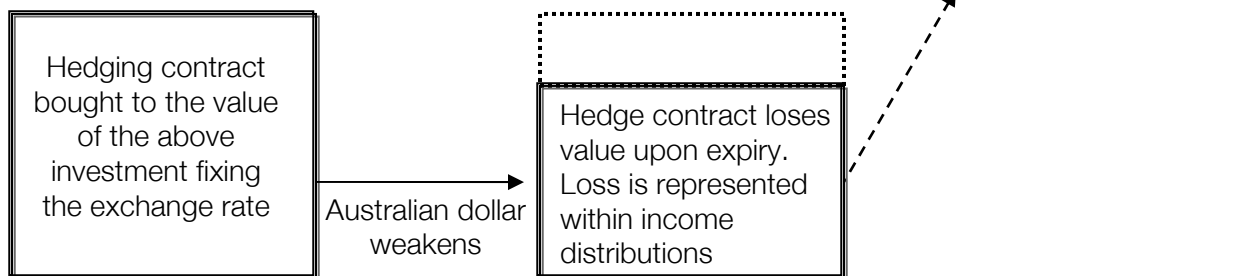
A. If you invest in funds that own non-Australian securities such as global shares, listed property and bonds, you'll be exposed to the impact of currency fluctuations on both your income and capital. This can impact the return you receive, both positively and negatively, depending on what currency exposure 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.

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. The example below explains how the hedging contract largely removes the impact of currency when the Australian dollar depreciates or weakens in value.²

Underlying investment



Currency hedge



²In 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.



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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 are available on the [Market Watch](#) website to answer any general questions you may have on distributions.



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