



MLC Wholesale
MLC MasterKey Investment Service Fundamentals (MKISF)

MLC Distributions Update – September 2009

This Q&A may answer some of your questions about distributions for MLC Wholesale / MLC MasterKey Investment Service Fundamentals (MKISF) 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 albeit they are typically distributed in the last quarter of the financial year. Currency can also impact income distributions on investments.

Q. Why were distributions low for the September 2009 quarter?

A. Distributions for MLC Wholesale¹ investors have dropped significantly because tough economic conditions in the past year have resulted in:

- o lower company dividend payouts
- o lower rates of interest on cash investments, and
- 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.

Q. What about the market rise over the last 6 months?

A. Because the market has been improving over the last six months, 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 been offset against the currency losses from last year.

Q. Why are company dividend levels so low?

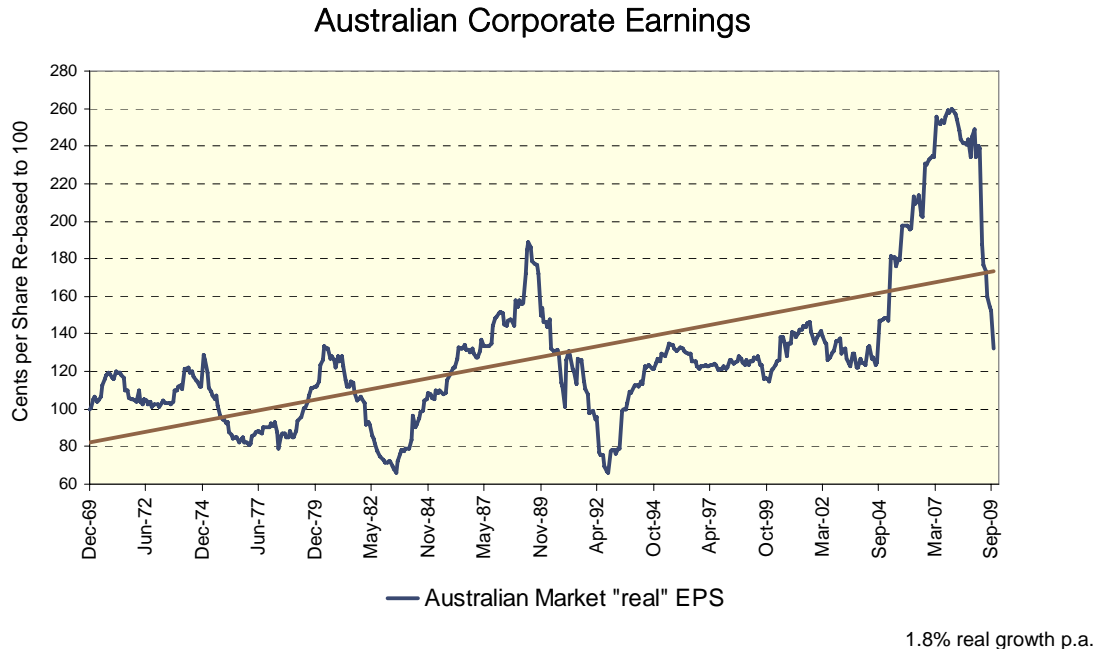
A. Lower company dividends could be a result of a number of factors including pressure on profit margins, poor sales and the need for companies to fund their businesses by retaining profits. Companies may choose not to pay dividends as it's cheaper for them to keep any profits, rather than raise money by borrowing. The

¹ Including MLC MasterKey Investment Service Fundamentals



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graph below shows the continued fall in domestic company earnings to 30 September 09. It is worth noting that even though equity markets have rebounded significantly in the last 6 months, company earnings are still lagging behind. This reduction in company earnings reflects the lower dividends passed through to investors.



Source: UBS

Q. What's been the impact of currency losses from hedging contracts on distributions?

A. As background, hedging overseas investments to the Australian dollar may be used to smooth out the overall return on your investment, which includes distributions and capital growth. This means that even though currency losses and gains from hedging contracts impact the distributions you receive, you should see less fluctuations in your overall return.

Significant falls in the Australian dollar in the second half of 2008 created large currency losses on funds which had hedged currency exposure to the Australian dollar. Recent gains in the Australian dollar have helped to reduce these losses, but have not been enough to completely offset these prior losses.



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Q. Why is there a difference in distribution for the MLC Wholesale¹ product and MLC MasterKey Unit Trust² product when they both have the same strategy?

A. While they both have the same investment strategy, they're separate products and the distributions shouldn't be directly compared because they have different pricing and fee structures. Therefore each product is priced separately with a different number of units on issue and as a result, the MLC Wholesale¹ product may receive different fee rebates from underlying funds to the MLC MasterKey Unit Trust².

Q. How long will low distributions last?

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

Another Q&A titled 'latest market conditions with Michelle Heinrich', Head of Investment Specialists, is also available via [Market Watch](#) on mlc.com.au to answer any general questions you may have on distributions.

¹ Including MLC MasterKey Investment Service Fundamentals

² Including MLC MasterKey Investment Service



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