MLC Investments

MLC Wholesale
MLC MasterKey Investment Service Fundamentals

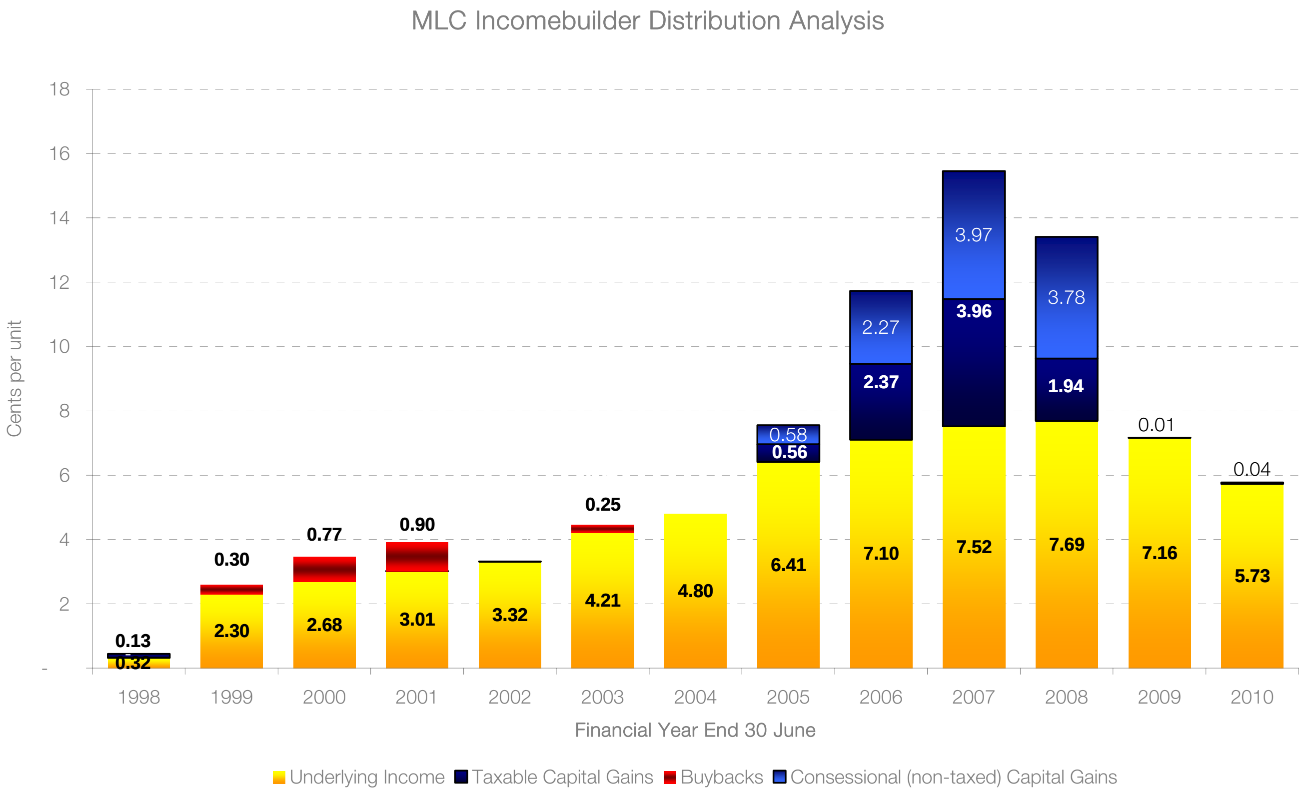
MLC Wholesale Incomebuilder™ Annual distribution commentary

30 June 2010

Underlying Income Distributions

MLC IncomeBuilder™ has a successful history of achieving its primary objective of producing a growing, tax effective income stream. In its fifteen year history, MLC IncomeBuilder™ has grown its underlying income distribution with great consistency as seen in the chart below. This year however saw the Fund declare one of the few reductions in underlying income since its commencement.

For the financial year ended 30 June 2010 the MLC Wholesale IncomeBuilder™ fund produced an underlying income distribution of 5.73 cents per unit. This is 20% lower than the previous year's 7.16 cents per unit distribution. As discussed last year, this year's distribution outcome was to be expected as company earnings and dividends have been impacted by the global economic slowdown. Many Australian companies have chosen to reduce dividends to preserve capital.



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Even though the Australian economy has recovered this year and the profits of some companies have improved, this has not necessarily led to a commensurate recovery in dividends. Companies will need to be convinced about the sustainability of the economic recovery, particularly the global outlook and the stability of the global financial system, before they are prepared to return to more generous dividend payouts. Until this occurs, distributions will likely remain low.

Much of the 20% fall in this year's Fund distributions versus the previous year (2008-09) reflects the shift that occurred in the space of a year in the company profit and dividend landscape. The first signs of falling dividend payments emerged within the second half of 2008 so the Fund's 2008-09 distribution benefited from a couple of quarters of 'pre-cut' dividends. However, this year's distributions reflect a full year of depressed dividends.

For example, the top four banks on average paid 20% less in dividends for the year with National Australia Bank and ANZ both reducing dividends by 25%. Other large company holdings in the portfolio such as Wesfarmers, Tabcorp and Brambles also cut their dividends by 38%, 27% and 29% respectively.

While overall underlying Fund income received from dividends is down, a number of more defensive companies owned by the Fund such as Coca-Cola Amatil, Fosters and Woolworths increased their dividends by 11%, 4% and 14% respectively.

The following table shows the reductions that have occurred each quarter when compared to last year's corresponding quarter.

Quarterly Underlying Income Distribution Comparison

	2008/9	2009/10	% Change
Quarter 1 (Sep)	1.62	1.06	-35%
Quarter 2 (Dec)	2.16	1.56	-28%
Quarter 3 (March)	1.60	1.10	-31%
Quarter 4 (June)	1.78	2.01	13%
Total	**7.16**	**5.73**	**-20%**

Source: MLC Wholesale IncomeBuilderTM

Capital Gains

The capital gains portion of this year's annual distribution (see next diagram) was almost negligible (0.04 cents per unit) and was made up entirely of concessional (tax advantaged) capital gains. Capital gains realised during the year as a result of normal buying and selling (plus the sale of Lion Nathan shares into what was ultimately a successful takeover offer, resulting in the de-listing of the company) were managed very closely with all assessable capital gains offset by capital losses during the period.

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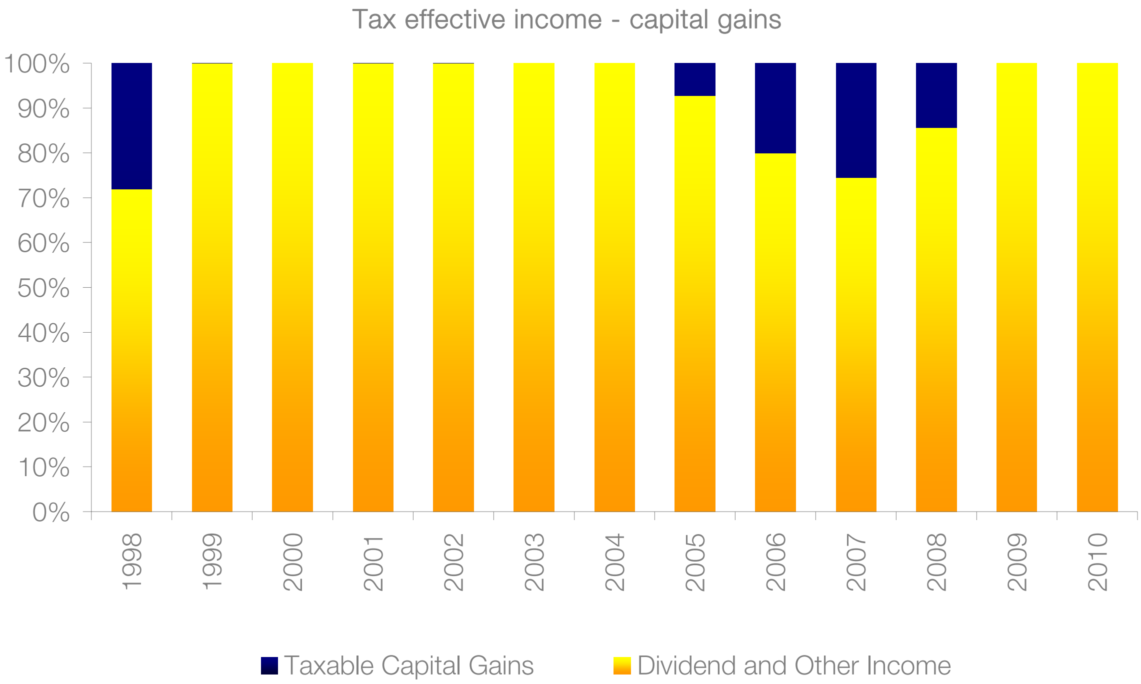
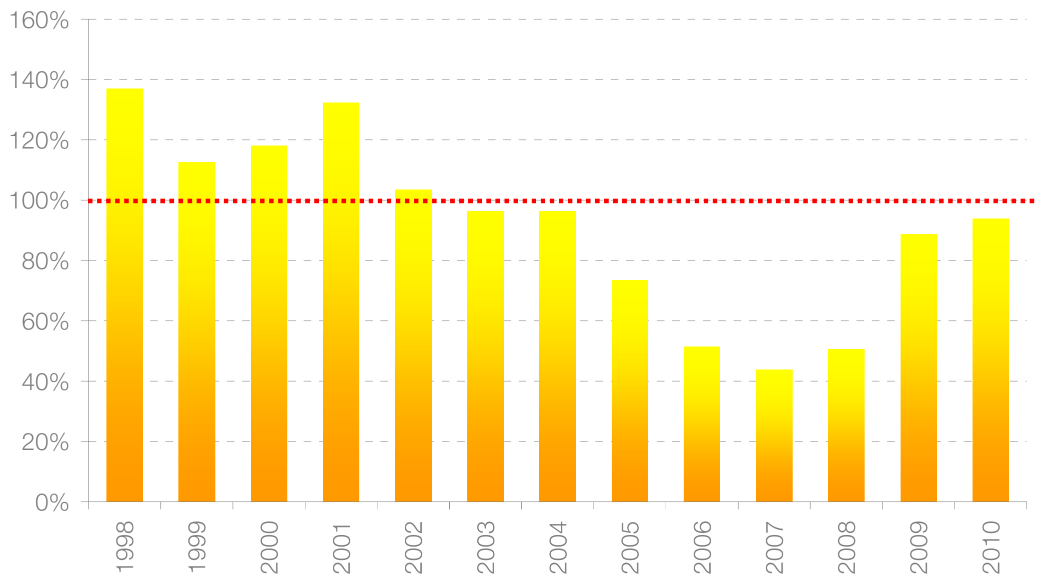


Source: MLC IncomeBuilderTM Unit Trust

Franking Levels

As shown in the following chart, the franking level of the Fund in the year just completed was 94%. Franking has remained high in the last couple of years, up from 51% in 2008, which is directly correlated with the decline in capital gains distributed this year, and last year also (see previous chart).



Source: MLC Wholesale IncomeBuilderTM

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Summary

Coming out of the GFC, company earnings have shown some signs of recovery. However, companies remain hesitant to make a commensurate increase in dividends as the global outlook remains very uncertain. Broad based company dividend increases will not likely occur until companies are more confident in the sustainability of the global and domestic economic outlook.

Even in the current climate, we firmly believe that MLC IncomeBuilder™ is well positioned to benefit when the earnings and dividend outlook improves.
MLC IncomeBuilder™ is broadly diversified, invested in companies such as Coca-Cola Amatil who have not been as adversely affected by the economic decline as others and have actually increased dividends. The portfolio is also managed by very experienced investment firms, namely Vanguard and Maple-Brown Abbott. We believe that the Fund's on-going focus on producing a growing income stream with tax advantages will ultimately stand investors in good stead, as has been the case since the Fund's inception.