



MLC IncomeBuilder

MLC MasterKey Unit Trust & MLC MasterKey Investment Service
 End of year distribution comment – potential capital gains
 May 2015

Summary

MLC MasterKey Unit Trust IncomeBuilder (MLC IncomeBuilder) has a successful history of achieving its primary objective of producing a growing, tax-efficient income stream. Over the 19 years, there has been a fairly steady rise in the fund’s underlying income distribution (shown by the orange bars in Chart 1). The annual underlying distributions have increased in 15 of the 19 years since its inception.

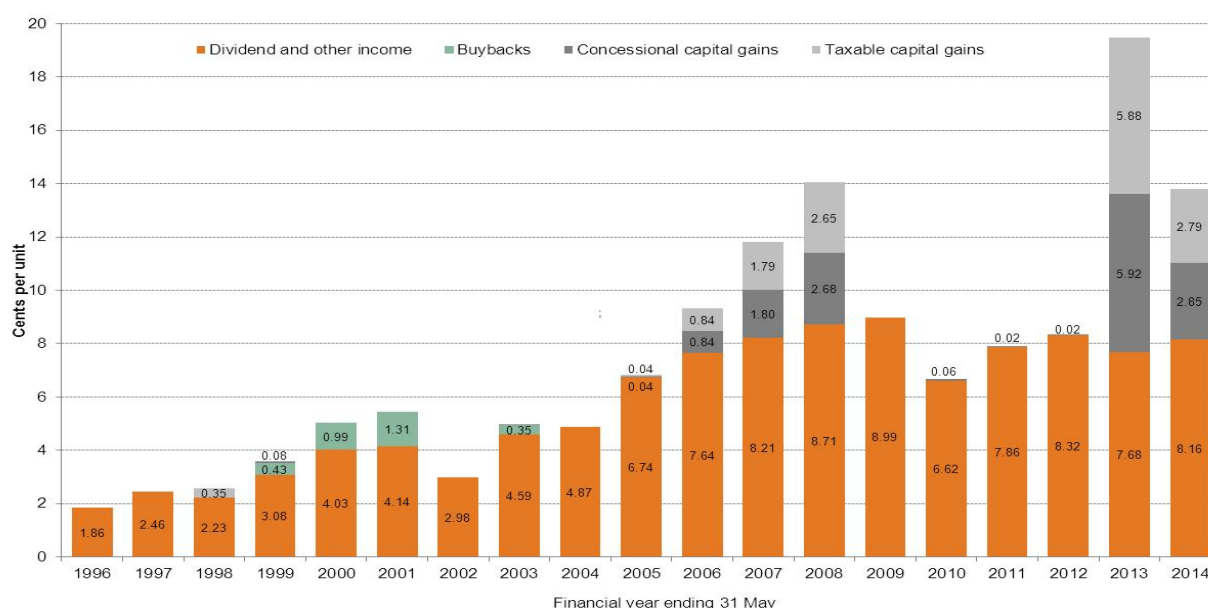
The purpose of this note is to flag in advance of the final distribution that we expect the fund could distribute capital gains for the 2014-15 financial year of a similar magnitude to the 2012-13 and 2013-14 financial years (see Chart 1 for the fund’s distribution history). We are advising you of this year’s potential capital gains so that you can assess the impact on your portfolio. Importantly, the date for the distribution is 31 May 2015, providing you with one month before the end of the Australian taxation year on 30 June.

What is causing the potential capital gains?

Over the long term the fund has demonstrated that the majority of its distributions have been franked dividend income. However, the fund is also required to distribute any realised capital gains at the end of its financial year. Capital gains can arise when the fund sells shares at prices higher than their original purchase price. These gains typically feature in the fund distributions after periods of very strong market performance and/or as a result of corporate actions such as takeovers. This has been the case for the year 2014-15 as the S&P/ASX 200 All Industrials Accumulation Index has risen 15.8% and 20.9% pa in the year and three years (respectively) to 30 April 2015.

The fund was also a beneficiary of the recent takeover of Toll Holdings Limited at a 40% price premium.

Chart 1: MLC IncomeBuilder distribution history



Source: MLC IncomeBuilder. Distributions are calculated net of fees.



The fund is managed by two high quality active investment managers, Antares and Maple-Brown Abbott. Where the managers believe share values have reached their full potential, we expect the managers to seek better long-term risk and return opportunities. In this way our managers seek to grow and preserve investor's capital over the long term, from which future franked dividend income may be generated. However, these portfolio changes can result in the realisation of capital gains.

However, because our investment managers focus on investing in companies for the long-term, a large portion of the capital gains that has been distributed in the past (shown by the grey bars in Chart 1) is concessional capital gains, which have favourable tax treatment. Essentially this means capital gains are discounted because the stocks have been held for greater than 12 months. This is further evidence of the fund's tax efficiency.

What is the potential capital gains expected to be?

We can't provide an estimate of the distribution at this stage, as there are several trading days before the fund's end of year. However we expect the capital gains distribution for the 2014-15 financial year could be similar in magnitude to the 2012-13 and 2013-14 financial years. We are advising you of this year's potential capital gains so that you can assess the impact on your portfolio.

Please note that the realised capital gains portion of the May distribution is automatically reinvested in your MLC IncomeBuilder account. This ensures your capital base, from which the dividend income is generated, is not eroded by paying capital gains out of the fund. The fund has operated in this way since it was established, as it helps investors maintain a growing income stream.

How can you find out more?

Please speak to your financial or tax adviser.

The following information will be available on mlc.com.au:

- Estimated Distribution Tax Components will be available within the week following the distribution, and
- an Annual Distribution Commentary will be available within two weeks following the distribution.

Important information

This information has been provided by MLC Investments Limited (ABN 30 002 641 661), a member of the National Australia Bank group of companies, 105–153 Miller Street, North Sydney 2060.

All data quoted is for the MLC MasterKey Unit Trust - IncomeBuilder as at 25 May 2015.

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