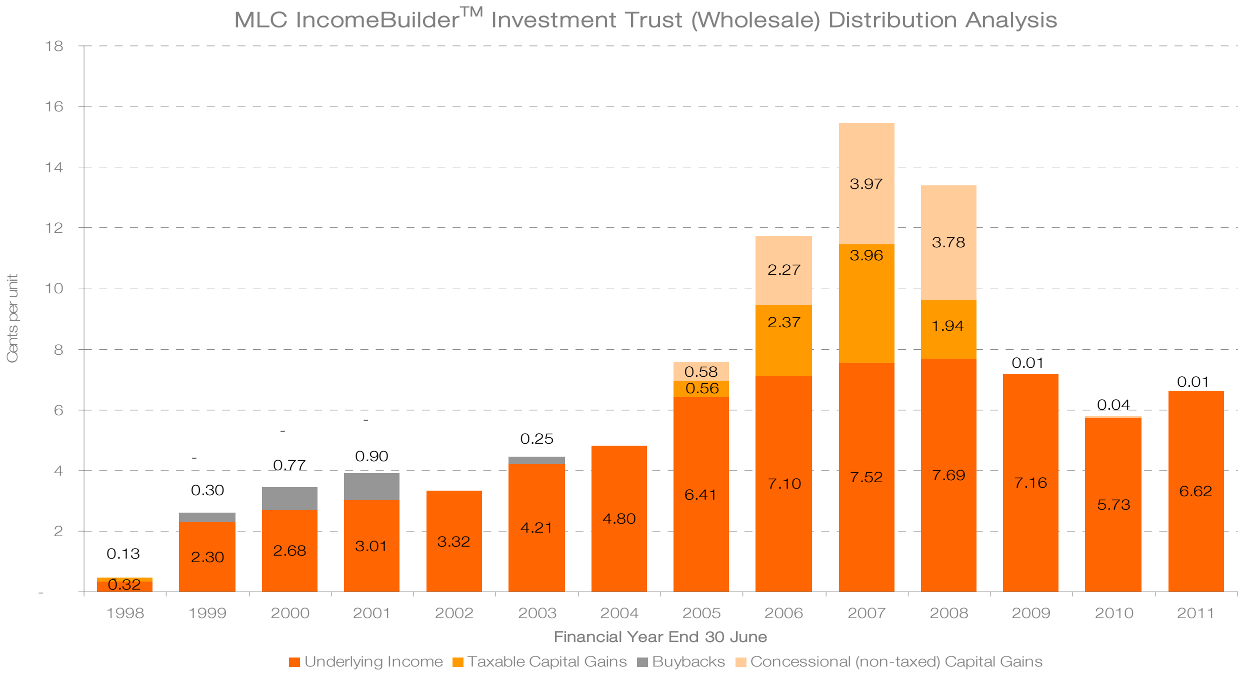
MLC Wholesale IncomeBuilder™

Annual distribution commentary

30 June 2011

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. For the 2010/11 financial year the fund has returned to growing underlying income, after a fall in the prior year, although this result is still lower than the previous peak in 2007/08.



For the financial year ended 30 June 2011 the MLC Wholesale IncomeBuilder™ produced an underlying income distribution of 6.62 cents per unit (cpu). This is around 16% higher than the previous year's 5.73 cpu distribution. The more positive outcome is a result of company profits, in general, improving and dividend payout ratios normalising as companies see less need to retain capital. There are still some companies whose dividends remain flat or in some cases were lower compared to those of recent years.

All of the big 4 banks increased their dividends over the year, National Australia Bank by +4% at the lower end compared to Commonwealth Bank by +28% at the higher end (bearing in mind differing year ends). Bank profitability improved over the year with the major portion of the gains coming from lower bad debt charges. Underlying operating profits marginally improved, so most of the increase was driven by a normalisation of the bad debt charge and we will not see similar gains in 2012. In total, bank dividends were the largest contributor to increased dividends for the Fund.

Another significant contributor was a special dividend and capital return paid by CSR following the sale of its sugar business. These payments are non-recurring and will thus negatively impact the comparative numbers in 2012.

Wesfarmers increased their dividend by 17% over the year as they enjoyed higher levels of profits from their key businesses such, as Coles and Bunnings, and a strong recovery in the coal business. Woolworths continued their track record of growing dividends with a 9% increase, despite facing tougher operating conditions. Similarly, Coca-Cola Amatil increased its dividend 11% as operating results improved on the back of market share and gains from product mix.

On the downside we saw lower dividends being declared by a number of companies that are still in the process of normalising their dividend payout ratios. Primary Healthcare cut its dividend sharply on the back of lower earnings flowing from difficult operating conditions and a number of non-recurring expense items. Tabcorp also cut its dividend (-18%) to better reflect the likely ongoing payout ratios of the demerged businesses (which took place in June 2011). Earnings for the group were relatively flat but Tabcorp is currently incurring significant capex at Star City and has also expressed an interest in the Victorian wagering licence.

The table below shows dividend changes for some of the top underlying companies in the Fund (listed alphabetically as at 31 May 2011) from the 2009/10 year to the current year.

Company	2009/10 ($)	2010/11 ($)	% Change
AMP	0.3	0.3	0%
ANZ	1.02	1.26	24%
Brambles	0.25	0.255	2%
Coca-Cola Amatil	0.435	0.485	11%
Commonwealth Bank	2.35	3.02	28%
Fosters	0.2725	0.2725	0%
National Australia Bank	1.46	1.52	4%
Suncorp	0.35	0.35	0%
Telstra	0.28	0.28	0%
Wesfarmers	1.15	1.35	17%
Westpac	1.16	1.39	20%
Woolworths	1.09	1.19	9%

The following table shows the increases in distributions that have occurred each quarter for the fund when compared to last year's corresponding quarter.

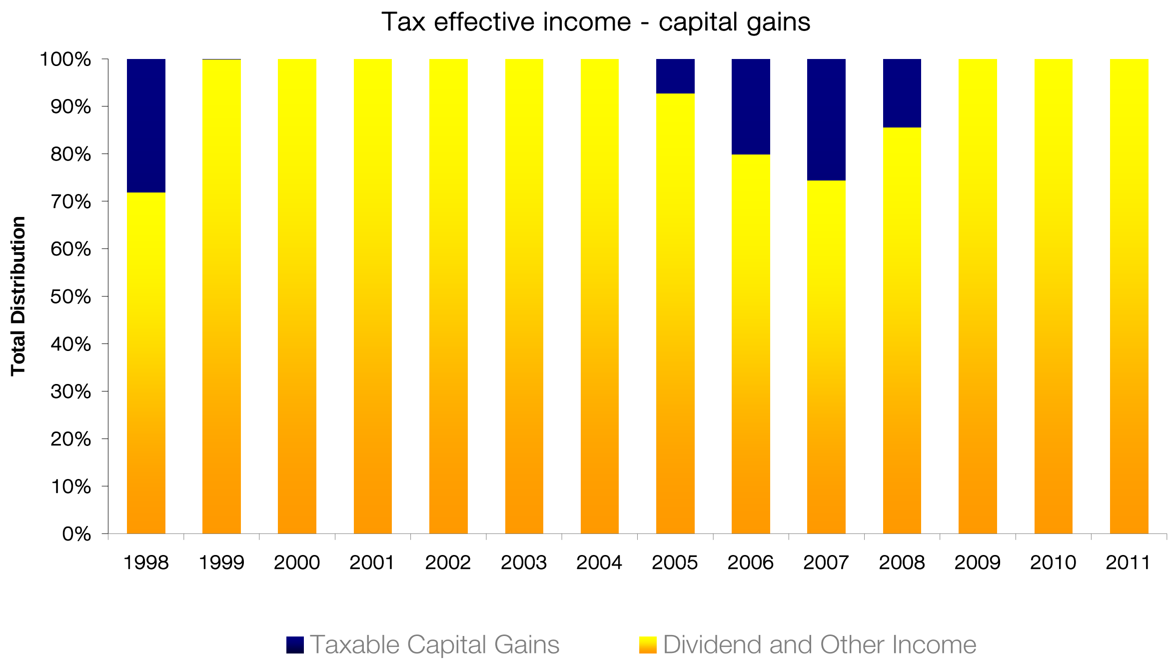
Quarterly Underlying Income Distribution Comparison

	2009/10	2010/11	% Change
Quarter 1 (Sep)	1.06	1.12	5.66
Quarter 2 (Dec)	1.56	1.81	16.03
Quarter 3 (Mar)	1.10	1.48	34.55
Quarter 4 (Jun)	2.01	2.21	9.95
Total	**5.73**	**6.62**	**15.53**

Please note underlying income distributions quoted in the table above do not include capital gains.
Source: MLC Wholesale IncomeBuilder™

Capital Gains

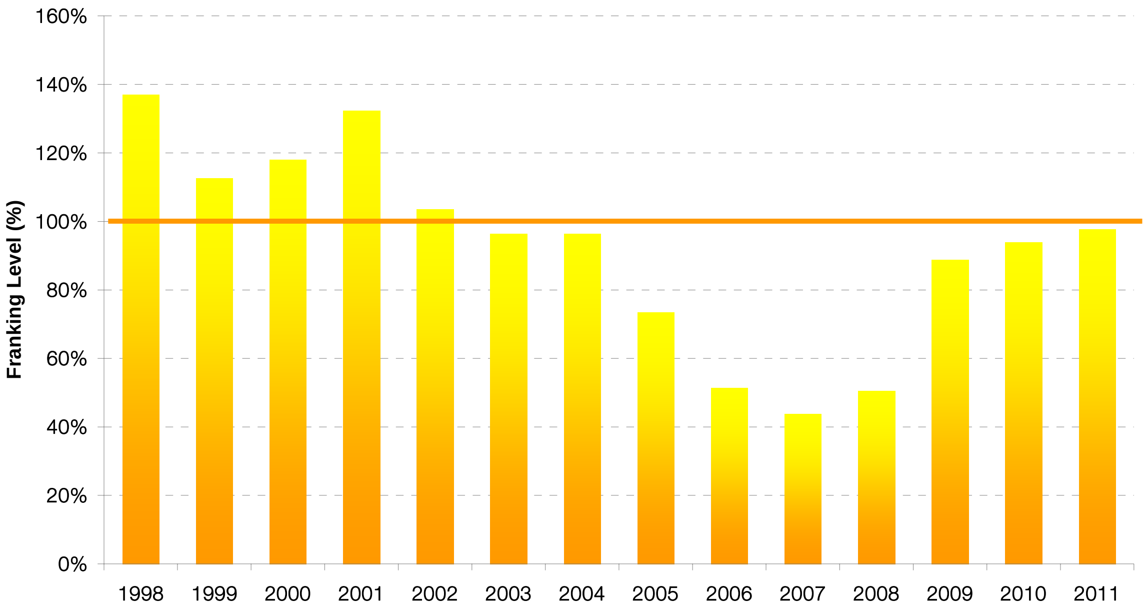
The capital gains portion of the annual distribution (see next diagram) was again very low at 0.01 cpu and was made up entirely of concessional capital gains. Capital gains realised during the year were a result of normal buying and selling of shares as well as cash components of takeovers of AXA and Crane Group. Capital gains were offset by capital losses during the period.



Source: MLC Wholesale IncomeBuilder™

Franking Levels

As shown in the following chart, the franking level of the Fund in the year just completed was 98%. 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 IncomeBuilder™

Summary

Company results in general have been improving gradually and dividend payout ratios have been normalising as companies see less need to retain capital. On the downside there were lower dividends being declared by some companies that are still in the process of normalising their dividend payout ratios.

Despite some continuing uncertainty in relation to the economic recovery, we firmly believe that MLC IncomeBuilder™ is well positioned to benefit when the earnings and dividend outlook improves. MLC IncomeBuilder™ is broadly diversified across a number of sectors and companies. Investments in consumer staples and financials have been particular contributors to the recent improvements in distributions. The portfolio is also managed by very experienced investment firms, namely Maple-Brown Abbott and Vanguard. We believe that the Fund's on-going focus on producing a growing income stream will ultimately stand investors in good stead, as has been the case since the Fund's inception.