MLC IncomeBuilder

MLC Wholesale & MLC MasterKey Investment Service Fundamentals

Quarterly distribution commentary, 31 March 2015

Underlying income distributions

For the quarter to 31 March 2015, MLC IncomeBuilder produced an underlying income distribution of 1.92 cents per unit (cpu). This is 0.5% below the 1.93 cpu distribution paid by the fund in the March 2014 quarter.

The total distribution for the nine months to 31 March 2015 is 5.58 cpu, which is 1.3% higher than the 5.51 cpu distribution paid in the equivalent period in 2013-14.

The small decrease in the March quarter distribution compared with last year's equivalent period reflects reduced holdings of some companies paying dividends this quarter. For example, in the last year, the fund's managers reduced holdings of Westpac, National Australia Bank and ANZ because they considered their valuations too expensive. They also sold out of Mirvac Group and reduced the fund's holdings of Stockland Group and Charter Hall Retail REIT. Around 38% of the fund's investments (by value) paid dividends this quarter, compared with approximately 43% in 2014.

Portfolio change of this nature is normal for an actively managed fund such as MLC IncomeBuilder. The fund's managers are always searching for companies they expect will help achieve its primary objective, which is to provide a growing, tax-effective income stream. The managers continually assess stock valuation, earnings growth potential, dividend sustainability, dividend yield and franking considerations. In some circumstances, this leads to changes to the fund's holdings. This can impact the timing of the receipt of dividends compared to previous periods, as we have seen both this quarter and in recent quarters.

Companies in which the fund's managers have increased their holdings in the last year include BHP Billiton, Woodside Petroleum, Recall, Suncorp Group, Coca-Cola Amatil, Insurance Australia Group, Sydney Airport, Tatts Group, Scentre Group, J.B. Hi-Fi, Origin Energy, AGL Energy and QBE Insurance Group. These are companies the managers believe can grow their dividends. The increases in these holdings were funded by sales of companies with less attractive valuations and dividend growth potential.

Contributors to performance

The most significant contributors to this quarter's distribution were National Australia Bank, Westpac and ANZ Banking Group. Each bank paid a dividend that was higher than last year's corresponding dividend. ANZ's 95 cents per share (cps) interim dividend was 4.4% higher than last year's, while National Australia Bank's 99 cps interim dividend was higher by 2.1% compared to last year's. Westpac's 92 cps interim dividend was 4.5% higher than last year's. However, it chose not to repeat the special dividend it paid in December 2013.

Another important contributor to the distribution this quarter was Harvey Norman. After recording a higher profit result, Harvey Norman has paid an 8 cps final dividend, up 77.8% from last year's 4.5 cps, and a special dividend of 14 cps. This sound result more than justifies the decision by Maple-Brown Abbott three years ago to increase the fund's investment in the company in anticipation of better profit and dividend results.

The fund will also benefit from the choice of Toll Holdings (Toll) by Antares and Maple-Brown Abbott. Japan Post has offered shareholders $9.04 cash per share and entitlement to Toll's 13 cents per share fully franked interim dividend (payable in April). The offer price represents a 49% premium to Toll's pre-offer share price. Toll's board has unanimously recommended shareholders vote in favour of the offer at a shareholders' meeting in May. Takeovers like this can result in the fund distributing some realised capital gains.

A number of listed property trusts also paid higher distributions this quarter, including Charter Hall Retail REIT. Scentre Group paid its maiden dividend following the reconstruction of the Westfield Group earlier in 2014, while Stockland Group's 12 cpu interim distribution was unchanged from last year's.

Other fund investments that paid higher dividends to the fund this quarter were Sydney Airport (12 cps, up 4.3% on last year's distribution), Orica (56 cps, up 1.8%), Incitec Pivot (7.3 cps, up 25.9%) and Aristocrat Leisure (8 cps, up 6.7%).

Underlying distribution for FY2014/15

We continue to believe the active investment processes of Antares and Maple-Brown Abbott are aligned with the fund's primary objective of delivering a growing distribution with good levels of dividend franking to fund investors. In the final quarter of the 2014/15 year, a significant number of companies will be paying dividends to the fund that are higher than those they paid last year. They include Wesfarmers (89 cps, up 4.7% from last year's dividend), Commonwealth Bank ($1.98 cps, up 8.2%), ASX Limited (92 cps, up 4.6%), Suncorp Group (38 cps, up 8.6%), BHP Billiton (79.1 cps, up 22.3%), Echo Entertainment (5 cps, up 25%), Woodside Petroleum ($1.85 cps, up 60.7%) and Tabcorp Holdings (10 cps, up 25%, plus a 30 cps special dividend).

Quarterly underlying income distribution* comparison for MLC Wholesale & MLC MasterKey Investment Service Fundamentals

Quarter	FY 2013/14	FY 2014/15	Change from FY 2013/14
Quarter 1 (September)	1.74	1.50	-13.8%
Quarter 2 (December)	1.84	2.16	17.4%
Quarter 3 (March)	1.93	1.92	-0.5%
Quarter 4 (June)	2.21		
Total	**7.72**		

*Underlying distribution consists of dividend and other income and excludes capital gains.

Source: MLC