



# MLC MasterKey Unit Trust

## MLC MasterKey Investment Service

Payment of annual distributions summary, 29 May 2016

On Sunday, 29 May 2016 the last distribution for the 2016 financial year (FY2016) was made to investors in the funds that comprise the MLC MasterKey Unit Trust, including those in the MLC MasterKey Investment Service (MKIS).

### 1. Annual distribution commentary

We are now producing our annual detailed commentary, which explains each fund's distribution and the key factors affecting the distributions in FY2016. As this requires us to analyse the components of the distribution, we expect the commentary to be available on [mlc.com.au](http://mlc.com.au) by COB on **Friday, 3 June 2016**.

Here is some high level information about the distributions.

### 2. Key factors affecting distributions in FY2016

#### **Slower economic growth has affected funds with exposure to shares**

While all funds made distributions this year, it has been a challenging year for many investors. Australian and global share markets were volatile and most of the share funds have negative returns for the year.

There are many factors that affect the share prices and dividends of companies listed on the share market. Economic growth is a common factor that affects most companies. In a growing economy, customers generally have more money to pay off their debts or spend on the goods and services companies produce. When customers spend more, company earnings and profits may increase, leading to higher dividends and share prices. But an economy growing slowly or contracting has the opposite effect on dividends and share prices.

The global economic environment has been mixed this year, with America and Europe seeing mild growth and China gradually slowing. Australia's economic growth is likely to be sedate given the impact of falling mining investment. Solid retail spending and housing construction are partly compensating for this "growth gap". However, many Australian companies did not increase their earnings and dividends in FY2016.

For these reasons, the Australian share funds had falling or modest increases in their distributions in FY2016 compared to FY2015.

Global share funds were also affected by the economic environment. The following section explains the other factors that caused their large distributions.

#### **MLC Horizon 3 to 7 Portfolios and global share funds**

Most funds with exposure to global shares paid significantly larger final distributions than in previous years. These distributions were largely capital gains. Most, and in some funds all, of these capital gains were concessional (or "discounted") capital gains and therefore tax-free for individuals and superannuation fund investors.

The capital gains are much higher than previous years because of a large outflow from our global shares strategy. This was due to an investor reallocating its significant investments across a number of MLC funds. To fund the outflow of money, securities – most of which had grown substantially over time – were sold, resulting in the realisation of capital gains. In addition, we made changes to our global shares investment managers during the year. Incoming managers have different portfolios of companies to outgoing managers, so we needed to sell securities and capital gains were realised. These capital gains were also mostly concessional capital gains, which are taxed favourably.



The funds must distribute all income, including realised capital gains, by the end of the financial year. Most, or all, of the income our investors receive in FY2016 consists of concessional capital gains which are taxed favourably. We were able to distribute concessional capital gains because many of the funds have carried-forward capital losses and most of the securities sold were held for more than a year.

### 3. FY2016 distributions compared with FY2015

The table below sets out the cents per unit (cpu) distributions paid for the May 2016 quarter and for the full 2016 financial year (1 June 2015 to 31 May 2016) for the funds in the MLC MasterKey Unit Trust, including those available in the MKIS.<sup>1</sup> The table also includes a brief comment regarding how the FY2016 distributions for each fund compared with FY2015. Further information about each fund's distribution will be in the detailed annual commentary from COB 3 June.

Fund	Quarter cpu	Full year cpu (yield) <sup>2</sup>					Comments
	May 2016	2015/16	2014/15	2013/14	2012/13	2011/12	FY2016 distributions compared to FY2015
MLC Horizon 1 – Bond Portfolio	0.95	1.15 (1.1%)	0.76 (0.8%)	1.53 (1.5%)	2.27 (2.3%)	2.15 (2.2%)	Increase in distribution from 0.76 to 1.15 cpu. Income from fixed income securities increased. Falling interest rate expectations, particularly in the US, resulted in higher capital gains on fixed income securities. We also made changes to our global fixed income investment managers during the year. Incoming managers have different portfolios of securities to outgoing managers so we needed to sell securities and capital gains were realised. The fund's income yield is similar to previous years.
MLC Horizon 2 – Income Portfolio	2.62	3.29 (2.8%)	2.36 (2.2%)	1.77 (1.7%)	2.98 (3.0%)	2.86 (2.9%)	Increase in distribution from 2.36 cpu to 3.29 cpu largely due to an increase in capital gains. Most of the capital gains are concessional capital gains and are taxed favourably. The fund's income yield is similar to previous years.

<sup>1</sup> MLC MasterKey Investment Service Fundamentals also invests in MLC Wholesale funds, which have a June year end. The MLC Inflation Plus – Assertive Portfolio, MLC Diversified Debt Fund, MLC Global Property Fund and MLC Hedged Global Share Fund in MLC MasterKey Investment Service are accessed through the MLC Wholesale funds, so they also have a June year end. As a result, this commentary does not cover those products. A separate commentary will be prepared after the final distribution in June.

<sup>2</sup> The distribution yield for a fund is the annual cpu divided by the unit price released the day after the final distribution for the previous financial year.

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Fund	Quarter cpu	Full year cpu (yield) <sup>3</sup>					Comments
	May 2016	2015/16	2014/15	2013/14	2012/13	2011/12	FY2016 distributions compared to FY2015
MLC Horizon 3 – Conservative Growth Portfolio	4.98	5.38 (5.1%)	2.53 (2.6%)	1.50 (1.6%)	1.95 (2.3%)	1.85 (2.2%)	Large increases in distributions due to an increase in capital gains for the reasons outlined in 'MLC Horizon 3 to 7 Portfolios and global share funds'. Most of the capital gains are concessional capital gains and are taxed favourably.
MLC Horizon 4 – Balanced Portfolio	8.95	9.52 (6.4%)	4.86 (3.5%)	2.36 (1.9%)	2.49 (2.3%)	2.45 (2.2%)	
MLC Horizon 5 – Growth Portfolio	8.98	9.33 (7.0%)	4.10 (3.4%)	2.04 (1.9%)	1.75 (1.9%)	2.42 (2.5%)	
MLC Horizon 6 – Share Portfolio	8.78	8.78 (8.2%)	3.10 (3.2%)	1.55 (1.8%)	0.76 (1.1%)	1.04 (1.4%)	
MLC Horizon 7 – Accelerated Growth Portfolio	10.60	10.60 (9.0%)	2.62 (2.6%)	1.28 (1.5%)	0.13 (0.2%)	0.19 (0.3%)	
MLC Australian Share Fund	6.13	8.58 (4.7%)	7.92 (4.5%)	6.12 (3.8%)	3.58 (2.7%)	4.46 (2.9%)	Small increase in distribution from 7.92 to 8.58 cpu due to an increase in dividend income and capital gains. Most of the capital gains are concessional capital gains and taxed favourably. The fund's income yield is similar to FY2015.
MLC Australian Share Value Style Fund	2.80	4.41 (4.2%)	4.61 (4.6%)	2.67 (3.0%)	3.40 (4.5%)	4.09 (4.5%)	Small decrease in distribution from 4.61 to 4.41 cpu for the reasons outlined in 'Slower economic growth has affected funds with exposure to shares'. The fund's income yield is similar to FY2015.
MLC Australian Share Growth Style Fund	2.76	4.37 (3.5%)	4.82 (3.9%)	2.54 (2.3%)	1.59 (1.8%)	1.76 (1.7%)	Small decrease in distribution from 4.82 to 4.37 cpu for the reasons outlined in 'Slower economic growth has affected funds with exposure to shares'. The fund's income yield is similar to FY2015.
MLC IncomeBuilder	10.98	16.54 (5.9%)	23.25 (8.6%)	13.80 (5.6%)	19.48 (9.8%)	8.34 (3.9%)	Large decrease in distribution from 23.25 to 16.54 cpu. The FY2015 distribution was unusually high due to the takeover of Toll Holdings Limited and a period of very strong market performance. The distribution for FY2016 has been affected by the reasons outlined in 'Slower economic growth has affected funds with exposure to shares'. The fund's income yield is similar to FY2014. Please refer to Section 4 on the payment of the distribution in two parts.

<sup>3</sup> The distribution yield for a fund is the annual cpu divided by the unit price released the day after the final distribution for the previous financial year.



Fund	Quarter cpu	Full year cpu (yield) <sup>3</sup>					Comments
	May 2016	2015/16	2014/15	2013/14	2012/13	2011/12	FY2016 distributions compared to FY2015
MLC Global Share Fund	24.45	24.45 (13.1%)	2.01 (1.3%)	1.16 (0.9%)	0.13 (0.1%)	0.02 (0.02%)	Large increase in distribution from 2.01 to 24.45 cpu due to an increase in capital gains for the reasons outlined in 'MLC Horizon 3 to 7 Portfolios and global share funds'. All of the capital gains are concessional capital gains and are taxed favourably.
MLC Global Share Value Style Fund	1.80	1.80 (1.5%)	0.82 (0.8%)	0.89 (1.0%)	0.31 (0.5%)	0.17 (0.2%)	Increase in distribution from 0.82 to 1.80 cpu due to an increase in capital gains for the reasons outlined in 'MLC Horizon 3 to 7 Portfolios and global share funds'. Most of the capital gains are concessional capital gains and are taxed favourably.
MLC Global Share Growth Style Fund	23.83	23.83 (15.9%)	3.20 (2.7%)	1.49 (1.5%)	-	-	Large increase in distribution from 3.20 to 23.83 cpu due to an increase in capital gains for the reasons outlined in 'MLC Horizon 3 to 7 Portfolios and global share funds'. All of the capital gains are concessional capital gains and are taxed favourably.
MLC Property Securities Fund	1.64	3.11 (3.6%)	3.00 (4.2%)	2.29 (3.2%)	1.54 (2.7%)	2.40 (4.3%)	Small increase in distribution from 3.00 to 3.11 cpu due to increase in rental income and capital gains.
MLC-Platinum Global Fund	20.73	20.73 (9.5%)	30.52 (15.3%)	-	-	-	Decrease in distribution from 30.52 to 20.73 cpu. The fund's distributions are largely capital gains, of which approximately half is concessional.
MLC-Vanguard Australian Share Index Fund	5.55	9.94 (4.0%)	13.23 (5.4%)	12.62 (5.6%)	8.88 (4.8%)	9.19 (4.3%)	Decrease in distribution from 13.23 to 9.94 cpu for the reasons outlined in 'Slower economic growth has affected funds with exposure to shares'.

Past performance is not indicative of future performance. The value of an investment may rise or fall with the changes in the market.

#### 4. MLC IncomeBuilder – 29 May distribution is paid in two parts

The May distribution for MLC IncomeBuilder is paid in two parts:

- the first part includes dividends and interest. Investors may request to have it paid to their bank account or as additional units, and
- the second part is the net taxable realised gains and concessional capital gains distributed by the fund. This is only paid as additional units. This ensures the investor's 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.



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**Important information**

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