



MLC MasterKey Unit Trust IncomeBuilder

Annual distribution commentary, 2023 financial year

27 June 2023

Summary

This financial year was a positive year for investors who rely on Australian shares for income. Whilst there was a fall in distributions from capital gains, there was an increase in distributions from dividend income of 29% in the 2023 financial year (FY2023). In particular there were increases in dividend payments made by Australian banks, ANZ, CBA, NAB and Westpac and by top five holdings companies, Telstra and Coles.

On Wednesday, 31 May 2023 the last cash distribution for FY2023 was made to investors in MLC IncomeBuilder. Table 1 provides the annual cents per unit (cpu) distribution and its components for this financial year and the previous eight years for comparison.

Table 1: MLC IncomeBuilder distributions history

Financial year ending 31 May	2022/23	2021/22	2020/21	2019/20	2018/19	2017/18	2016/17	2015/16	2014/15
Total underlying income distribution* (cpu)	7.98	6.21	2.92	6.84	8.60	7.70	7.93	8.45	8.52
Capital gains (cpu)**	5.98	11.56	8.93	9.26	14.24	4.76	9.26	8.09	14.73
Total distributions (cpu)	13.96	17.77	11.85	16.10	22.84	12.46	17.19	16.54	23.25
Franking level of distributed income (excluding non-assessable capital gains)	90%	65%	63%	76%	68%	102%	89%	90%	77%

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

**Part of the capital gains are concessional capital gains which are non-tax assessable for individuals and superannuation investors as follows:

- Individual investors: approximately half of the capital gains are concessional capital gains which are not tax-assessable
- Superannuation fund investors: approximately a third of the capital gains are concessional capital gains which are not tax-assessable.

The above amounts are historical distributions and are not indicative of future distributions.

In summary, for the FY2023, the fund's:

- total distribution is moderately lower than last year mainly due to a reduction in capital gains income.
- underlying income is mostly franked dividends which provide investors with a tax-efficient income stream.
- capital gains were lower than the prior year's. Half of the capital gains are concessional capital gains and are therefore not tax-assessable for individuals, and a third are not tax-assessable for superannuation fund investors. The remainder of the distributed capital gains is taxed at the investor's marginal tax rate. It's clear the corporate earnings, and the fund's ability to generate a growing income stream each year, has improved compared to the 2022 financial year and post pandemic recovery period.

Underlying income distribution

We manage the fund to allow all dividends and any other income generated by the fund's investments to flow through to investors rather than 'engineering' an income stream through more frequent portfolio turnover, hybrid investments or using derivatives. In more normal environments the fund's distributions tend to be stable over the

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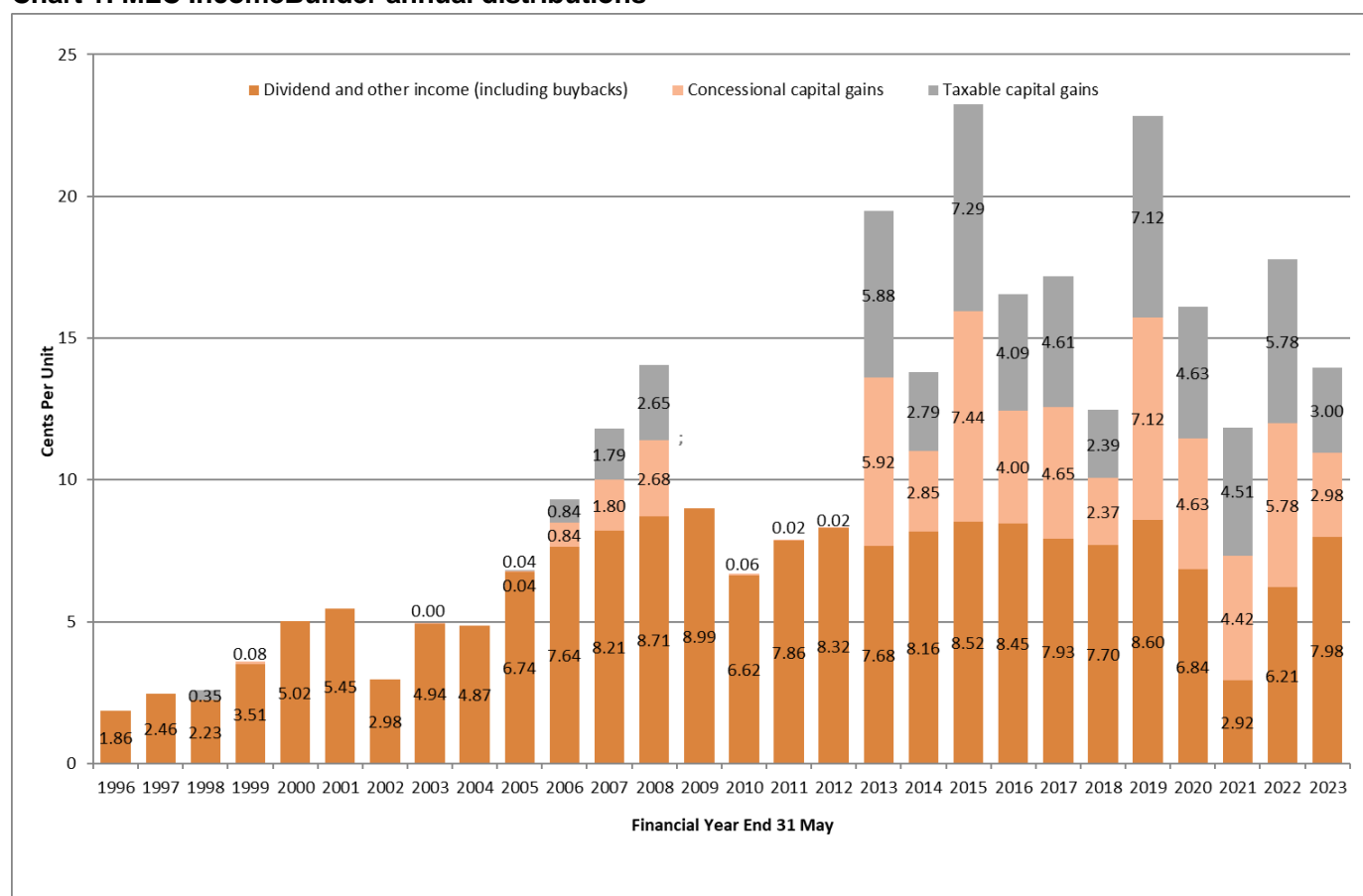
medium term, reflecting the dividend policies of the companies the fund invests in. While the environment of the last three years has been unusual, we've managed the fund through other market dislocations and we continue to believe the investment approaches of our investment managers and regular fund distributions provides a more reliable way of delivering sustainable long-term tax efficient income to investors.

However, there have been times when the fund's underlying income growth (shown by the orange bars in Chart 1) slows or reduces as company earnings slow. Due to the nature of the economic shutdown required in the last two years to contain COVID-19, dividends were impacted far more than in previous shocks. However, as FY2022 and FY2023 have shown, our investment approach has returned to producing a steady increase in income, as it has in the past 27 years since the fund's inception.

In FY2023 the fund's net income was adequate to distribute in each quarter (August, November, February and May).

Chart 1 shows that when you look back over the entire 27 years since the fund's inception, that it has a history of achieving its primary objective of producing a growing, tax-efficient income stream.

Chart 1: MLC IncomeBuilder annual distributions



Source: MLC IncomeBuilder. Distributions are calculated net of fees. Concessional capital gains are shown for individual investors; superannuation fund investors will have lower concessional capital gains and higher taxable capital gains than shown in the chart.

The above amounts are historical distributions and are not indicative of future distributions.

The fund's underlying income excludes capital gains and currently comprises mostly dividend income with a small exposure to distributions of Australian Real Estate Investment Trusts (REITs) and interest income from the

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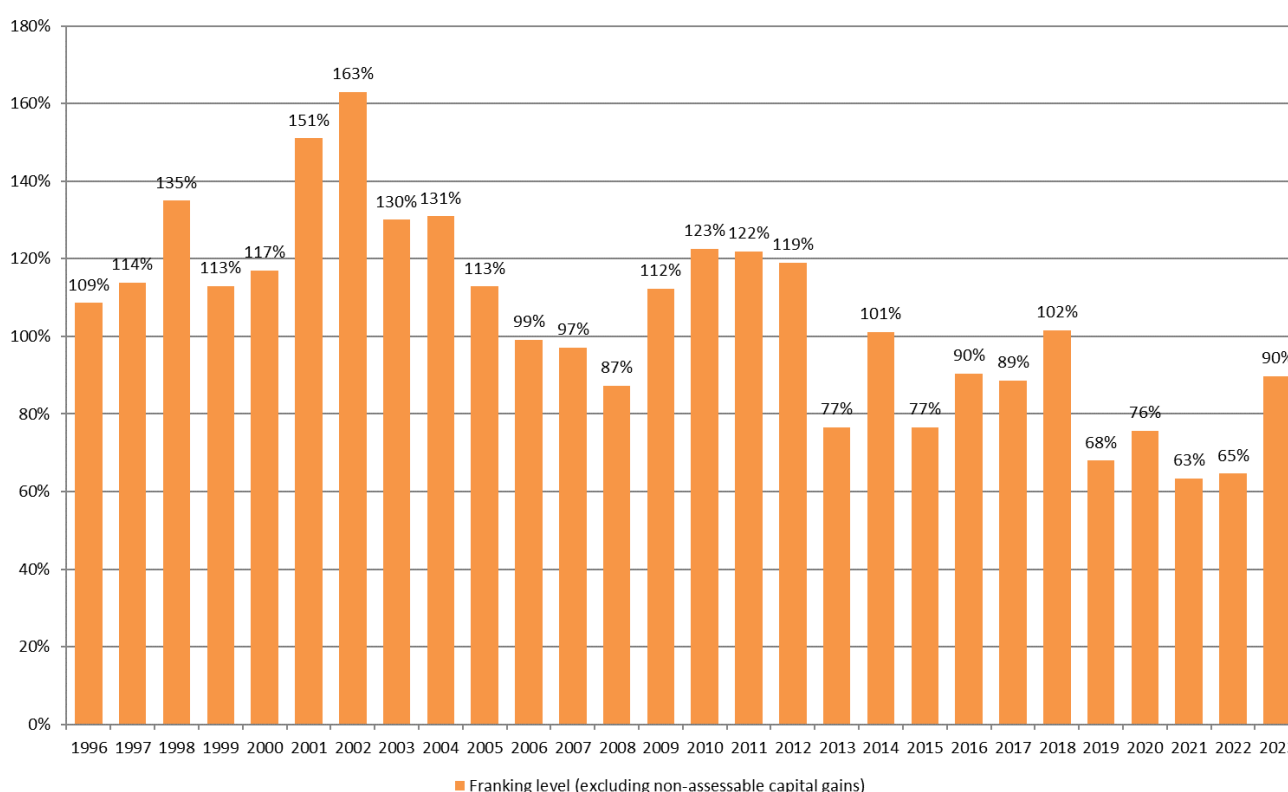
immaterial cash exposure. Most of the underlying income is franked dividends which provide investors with a tax-efficient income stream.

Franking levels

MLC IncomeBuilder has delivered a tax-efficient income stream with a franking level of 90% this year (Chart 2).

Since its inception, the fund has maintained a high franking level by investing in Australian companies that derive most of their earnings from Australian sources, and therefore pay domestic tax on those earnings.

Chart 2: Franking levels for MLC IncomeBuilder



Source: MLC IncomeBuilder. Franking levels shown in the graph are calculated net of fees and exclude non-assessable capital gains for individual investors, in accordance with FSC's standard. Superannuation fund investor franking levels would be lower than shown in the graph as their concessional capital gains will be lower, and taxable capital gains higher.

The above amounts are historical franking levels and are not indicative of future franking levels.

The fund's franking level is a measure of the imputation credits attached to its income distribution.

Capital gains

Over the long term the fund has demonstrated 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.

Where our active investment managers, Antares and Maple-Brown Abbott, 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.

These gains typically feature in the fund's distribution after periods of very strong market performance and as a result of corporate actions such as takeovers and buybacks.



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Our investment managers tend to hold shares for long periods of time and don't generally buy and sell the same company within a year. Therefore the benefit of the capital gain discount is passed onto investors. That's why half of the capital gains distributed this year (shown by the light orange bars in Chart 1) were concessional capital gains, which are not tax-assessable for individuals, and a third are not tax-assessable for superannuation fund investors.

The net taxable realised capital gains portion of the annual distribution is automatically reinvested as additional units. This ensures an investor's capital base, from which their dividend income is generated, continues to grow by being re-invested in the fund. The fund has operated in this way since it was established, as it helps investors remain focussed on maintaining a growing tax-efficient income stream.

Dividends from the fund's investments

Table 2 shows dividends paid by MLC IncomeBuilder's larger company holdings in FY2023 and how their dividend has changed compared to the same time last year. More than 70% of the fund is invested in the companies below. While some companies didn't change, or decreased, their dividends compared to this time last year, the majority have increased their dividends this financial year.

Table 2: Dividends paid in FY2023, by MLC IncomeBuilder's largest company holdings, ordered from large to small exposures

Company	Dividend (\$ per share)	% change in dividend compared to FY2022
National Australia Bank	\$1.51	19%
Westpac Banking Corporation	\$1.25	6%
ANZ Group Holdings	\$1.46	3%
Telstra Group	\$0.17	6%
Coles Group	\$0.66	8%
Commonwealth Bank	\$4.20	12%
Suncorp Group	\$0.50	-21%
Woodside Energy Group	\$3.75	101%
BHP Group	\$3.92	-18%
Brambles	\$0.35	19%
Origin Energy	\$0.33	65%
Lottery Corp.	\$0.09	First listed on 24 May 2022
QBE Insurance Group	\$0.39	30%
Orica	\$0.35	46%
Amcor Plc	\$0.71	11%
CSL	\$3.38	12%
Incitec Pivot	\$0.27	190%
Insurance Australia Group	\$0.11	-42%
Link Administration Holdings	\$0.13	47%

Securities mentioned in this commentary may no longer be held in MLC IncomeBuilder.



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Outlook

The outlook for corporate earnings remains robust, and the fund's ability to generate a growing income stream each year has improved compared to recent years. While the fund's stable distribution trend was disrupted by the COVID-19 shutdowns, which significantly impacted earnings of companies, distributions have rebounded strongly, but we must be mindful that we are now in an interest rate tightening cycle.

We believe the fund is well placed to access the continued recovery in dividends and resumption of annual distribution growth with tax benefits due to the underlying active investment managers and long investment experience and research skills of Maple-Brown Abbott and Antares Equities. These managers' investment approaches when blended, have proven that they can provide a reliable way of delivering sustainable long-term tax efficient income to investors. The active investment style and deep company research practiced by both managers will help position the fund's investments appropriately as the economy continues to recover and companies gradually return their dividends and payout ratio policies back towards pre-pandemic levels.

Up-to-date commentary on the performance of MLC IncomeBuilder, including information on the dividends declared by underlying companies, is available on the Fund Profile Tool on <https://www.mlc.com.au/fundprofiletool>.

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