



MLC MasterKey Investment Service

MLC MasterKey Unit Trust

End of year distribution commentary, 2020 financial year

1 June 2020

Background

On Sunday, 31 May 2020 the last cash distribution for the 2020 financial year (FY2020) was made to investors in the funds that comprise the MLC MasterKey Unit Trust, including those offered in the MLC MasterKey Investment Service (MKIS)¹.

Investors can expect the unit price for the funds in Table 1 (Funds) to fall by the amount of the distribution.

If you invest through a platform, your distribution will be allocated to you by the platform. Investors who have their distributions paid into their bank account, rather than reinvested into their fund, can expect the income in their account within two weeks after the distribution.

The estimated tax components will be available mid June 2020 at mlc.com.au. Final tax components will be provided in 2019/20 MLC MasterKey tax statements, usually sent to investors in August, to assist in the preparation of their tax return.

Appendix 1 provides the full financial year (1 June to 31 May) distributions for the last ten years.

Commentary for full year cash distributions for FY2020

Commentary on the final cents per unit (cpu) distributions, compared to recent years' distributions is provided in Table 1.

Table 1 – Commentary on cash distributions for FY2020

MLC MasterKey Unit Trust fund (APIR code)	Cpu for May 2020 qtr	Full year cpu		Full year cash distribution for FY2020 commentary
		2019/20	2018/19	
MLC Horizon 1 – Bond Portfolio (MLC0622AU)	N/A	3.71	1.30	The fund terminated in March 2020, with the net proceeds of the sale of the funds' assets returned to investors in its final distribution on 10 March 2020.

¹ MLC MasterKey Investment Service also offers the following MLC Wholesale funds, which have a June year end: MLC Inflation Plus – Assertive Portfolio, MLC Diversified Debt Fund, and MLC Global Property Fund. As a result, this commentary does not cover those funds.

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MLC MasterKey Unit Trust fund (APIR code)	Cpu for May 2020 qtr	Full year cpu		Full year cash distribution for FY2020 commentary
		2019/20	2018/19	
MLC Horizon 2 – Income Portfolio (MLC0021AU)	0.89	0.92	1.37	<p>Slightly lower than FY2019 due to a decrease in dividend and interest income. Please refer to pages 4 and 5 for 'Dividend income has reduced' and 'Interest income has reduced' for more information.</p> <p>The Fund continued to have carried forward capital losses at the end of FY2020. Please refer to page 5 'Carried forward capital losses' for information on their effect on distributions.</p>
MLC Horizon 3 – Conservative Growth Portfolio (MLC0393AU)	3.13	3.13	3.80	<p>Slightly lower than FY2019 due to a decrease in dividend income. Please refer to page 4 'Dividend income has reduced' for more information.</p>
MLC Horizon 4 – Balanced Portfolio (MLC0023AU)	6.49	6.55	6.19	<p>Despite a reduction in dividend income, the distribution was slightly higher than FY2019 due to an increase in realised capital gains.</p> <p>Please refer to page 4 'Dividend income has reduced' and 'Why funds have distributed realised capital gains when their unit prices have fallen' for more information.</p>
MLC Horizon 5 – Growth Portfolio (MLC0024AU)	6.58	6.59	3.93	<p>Despite a reduction in dividend income, the distribution was moderately higher than FY2019 due to an increase in realised capital gains.</p> <p>Please refer to page 4 'Dividend income has reduced' and 'Why funds have distributed realised capital gains when their unit prices have fallen' for more information.</p>
MLC Horizon 6 – Share Portfolio (MLC0394AU)	6.87	6.87	7.19	<p>Despite an increase in realised capital gains, the distribution was slightly lower than FY2019 due to a reduction in dividend income.</p> <p>Please refer to page 4 'Dividend income has reduced' and 'Why funds have distributed realised capital gains when their unit prices have fallen' for more information.</p>
MLC Horizon 7 – Accelerated Growth Portfolio (MLC0448AU)	0.30	0.30	2.13	<p>Significantly lower than FY2019 because of a decrease in dividends. Please refer to page 4 'Dividend income has reduced' for more information.</p> <p>The Fund continued to have carried forward capital losses at the end of FY2020. Please refer to page 5 'Carried forward capital losses' for information on their effect on distributions.</p>

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MLC MasterKey Unit Trust fund (APIR code)	Cpu for May 2020 qtr	Full year cpu		Full year cash distribution for FY2020 commentary
		2019/20	2018/19	
MLC IncomeBuilder (MLC0097AU)	11.62	16.10	22.84	<p>Moderately lower than FY2019 due to:</p> <ul style="list-style-type: none"> a decrease in the Fund's underlying income, comprising dividend, Real Estate Investment Trust (REIT), interest and other income, and a decrease in capital gains compared to FY2019. <p>For more information please refer to our article 'MLC IncomeBuilder – Outlook for dividends'. MLC IncomeBuilder's annual distribution commentary will also be available mid June 2020 on mlc.com.au.</p> <p>Additionally, please refer to page 4 'Dividend income has reduced' and 'Why funds have distributed realised capital gains when their unit prices have fallen'.</p>
MLC Australian Share Fund (MLC0015AU)	1.87	3.88	9.36	<p>Significantly lower than FY2019 due to a decrease in dividends, explained on page 4 'Dividend income has reduced'.</p> <p>The Fund continued to have carried forward capital losses at the end of FY2020. Please refer to page 5 'Carried forward capital losses' for information on their effect on distributions.</p>
MLC-Vanguard Australian Share Index Fund (MLC0014AU)	8.60	11.65	11.34	<p>Similar to FY2019. However, the distribution components have changed because dividend income reduced and realised capital gains increased compared to FY2019.</p> <p>Please refer to page 4 'Dividend income has reduced' and 'Why funds have distributed realised capital gains when their unit prices have fallen' for more information.</p>
MLC Property Securities Fund (MLC0013AU)	0.01	1.30	2.27	<p>Moderately lower than FY2019. Please refer to page 5 'Real Estate Investment Trusts' income has reduced'.</p> <p>The Fund continued to have carried forward capital losses at the end of FY2020. Please refer to page 5 'Carried forward capital losses' for information on their effect on distributions.</p>
MLC Global Share Fund (MLC0017AU)	0.12	0.12	0.47	<p>Similar to FY2019.</p> <p>The Fund continued to have carried forward capital losses at the end of FY2020. Please refer to page 5 'Carried forward capital losses' for information on their effect on distributions.</p>

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MLC MasterKey Unit Trust fund (APIR code)	Cpu for May 2020 qtr	Full year cpu		Full year cash distribution for FY2020 commentary
		2019/20	2018/19	
MLC-Platinum Global Fund (MLC0060AU)	6.69	6.69	14.37	Significantly lower than FY2019 due to a decrease in realised capital gains. Please refer to page 4 'Why funds have distributed realised capital gains when their unit prices have fallen' for more information.

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

Key factors affecting cash distributions in FY2020

The MLC Horizon portfolios are a range of multi-asset class funds tailored to meet the needs of investors with different return expectations, time frames and tolerances for volatility. The income distributions for these funds are largely based on the income from the underlying asset classes. The allocations to the asset classes are different for each of the MLC Horizon portfolios.

MLC's share funds (except for MLC IncomeBuilder), and the MLC Horizon portfolios with high allocations to shares, are designed to provide capital growth over the long term. Although many of these growth-focussed funds make frequent distributions, their main objective is to increase the value of their assets for investors, rather than to deliver a regular income stream. As a result, their income tends to fluctuate from year to year.

Here are the key factors affecting distributions in FY2020.

Why funds have distributed realised capital gains when their unit prices have fallen

Unit prices of many funds have been volatile in the last few months because of the economic uncertainty created by the COVID-19 pandemic. Earnings of many of the companies in which the funds invest have been affected. Their values have fallen, as reflected in lower fund unit prices and weak returns.

However, during most of the financial year companies were paying dividends and prices were rising very strongly. The funds accumulated most of their income, including realised capital gains and dividends, during that period. This income needs to be distributed before the end of the financial year.

As a result, funds that have distributed income this quarter may also have experienced a falling unit price in recent months. We have more information in Question 9 of our Income Distributions FAQ available at mlc.com.au

It's not clear the impact COVID-19 will have on income distributions in coming months and years. Our investment experts are providing regular updates on investment markets at mlc.com.au/coronavirus and in our fund commentaries available at mlc.com.au/fundprofiletool

Dividend income has reduced

Measures implemented by the Australian and state governments to combat the spread of COVID-19 have led to a dramatic drop in economic activity. Some industries (travel, gaming, hospitality) have effectively shut down overnight, while companies operating in industries normally considered to have defensive characteristics have experienced a sudden fall in demand for their products.

As a result of the economic decline so far and uncertain outlook, a significant number of Australian companies have chosen to preserve capital by cutting dividends, deferring them or cancelling them altogether. While there are a small number of companies that aren't negatively affected and are likely to maintain their dividends, the majority of

companies can be expected to declare materially lower dividends or none at all for at least the current half of the year or, for some companies, until the crisis is over. These changes are necessary to preserve their balance sheet strength in an extremely uncertain business trading environment, and includes large dividend-payers like the banks, property trusts and infrastructure companies.

As a result, funds with investments in Australian shares have lower distributions of dividends in FY2020 than in FY2019. These funds have some dividend income in their distributions because they distributed income for three quarters of the financial year, prior to COVID-19 impacting them. Beyond the FY2020 we expect dividend income to be cut materially in the short term, but it's still too early to estimate the extent of dividend cuts to be made by most companies and how long it will be for company earnings and dividends to recover.

Additionally, when comparing last year's distribution, the following funds' dividend income was unusually high in FY2019 due to BHP's shareholder return program:

- MLC Australian Share Fund
- MLC Horizon 3 to 7 portfolios
- MLC-Vanguard Australian Share Index Fund

These funds had exposure to BHP's off-market buyback and received the sale proceeds as a 'one-off' franked dividend in FY2019.

Real Estate Investment Trusts' income has reduced

Income distributions from REITs have deteriorated because of the drop in economic activity created by the COVID-19 pandemic. While there are a small number of REITs and property-related companies that aren't negatively affected and have maintained their distributions, the majority of REITs have declared materially lower distributions or none at all for at least the current half of FY2020. Reductions to income distributions are likely to extend until the crisis is over to preserve their balance sheet strength in an extremely uncertain business trading environment.

Unfortunately, as a result of REITs reducing their distributions, the 'non-assessable' or 'tax deferred' income components of their distributions are likely to be materially less than prior years. These income components have favourable tax treatment for investors.

Interest income has reduced

Fixed income investments produced lower levels of interest income this year because bond yields and interest rates have remained low.

Carried forward capital losses

A fund's capital losses significantly reduce the level of realised capital gains distributed. Weak and volatile markets from events such as the GFC and COVID-19 results in most funds suffering large capital losses when they sell investments. Capital losses are kept in the fund and are carried forward until they can be offset against future capital gains.

The funds with carried forward capital losses at the end of FY2020 are:

- MLC Horizon 2 – Income Portfolio
- MLC Horizon 7 – Accelerated Growth Portfolio
- MLC Australian Share Fund
- MLC Property Securities Fund
- MLC Global Share Fund

Other income such as dividends and interest income continues to be distributed by funds with carried forward capital losses because only capital gains are offset against capital losses.



Next steps

As the cash distribution was on 31 May 2020, there are a few weeks before the end of the Australian taxation year on 30 June.

The estimated tax components for the funds will be available mid June 2020 at mlc.com.au, however these can change. Final tax components are provided in investors' MLC MasterKey tax statements, usually sent in August.

If you have questions, please speak to your financial or tax adviser.

We also have frequently asked questions on income distributions available on mlc.com.au.

More information on the performance of each fund is available on the Fund Profile Tool on mlc.com.au and is updated monthly.

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Appendix 1: Financial year distribution history

Table 2 shows the cpu distributions paid for the May 2020 quarter along with the full financial year (1 June to 31 May) distributions for the last ten years.

Table 2 – Cash distribution history

Fund (APIR code)	31 May 2020 qtr cpu	Full year cpu (yield) ²	Full year cpu (yield) ²								
			2019/20	2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12
MLC Horizon 1 – Bond Portfolio (MLC0622AU)	N/A	3.71 (3.7%)	1.30 (1.3%)	0.52 (0.5%)	1.63 (1.6%)	1.15 (1.1%)	0.76 (0.8%)	1.53 (1.5%)	2.27 (2.3%)	2.15 (2.2%)	4.67 (4.9%)
MLC Horizon 2 – Income Portfolio (MLC0021AU)	0.89	0.92 (0.8%)	1.37 (1.2%)	1.08 (0.9%)	2.35 (2.1%)	3.29 (2.8%)	2.36 (2.2%)	1.77 (1.7%)	2.98 (3.0%)	2.86 (2.9%)	4.65 (4.8%)
MLC Horizon 3 – Conservative Growth Portfolio (MLC0393AU)	3.13	3.13 (3.0%)	3.80 (3.7%)	4.70 (4.5%)	2.33 (2.3%)	5.38 (5.1%)	2.53 (2.6%)	1.50 (1.6%)	1.95 (2.3%)	1.85 (2.2%)	3.98 (4.9%)
MLC Horizon 4 – Balanced Portfolio (MLC0023AU)	6.49	6.55 (4.2%)	6.19 (4.0%)	1.41 (1.0%)	3.76 (2.7%)	9.52 (6.4%)	4.86 (3.5%)	2.36 (1.9%)	2.49 (2.3%)	2.45 (2.2%)	5.44 (5.0%)
MLC Horizon 5 – Growth Portfolio (MLC0024AU)	6.58	6.59 (4.7%)	3.93 (2.9%)	1.15 (0.9%)	3.55 (2.9%)	9.33 (7.0%)	4.10 (3.4%)	2.04 (1.9%)	1.75 (1.9%)	2.42 (2.5%)	5.06 (5.4%)
MLC Horizon 6 – Share Portfolio (MLC0394AU)	6.87	6.87 (6.3%)	7.19 (6.6%)	4.59 (4.4%)	3.29 (3.4%)	8.78 (8.2%)	3.10 (3.2%)	1.55 (1.8%)	0.76 (1.1%)	1.04 (1.4%)	4.13 (5.8%)
MLC Horizon 7 – Accelerated Growth Portfolio (MLC0448AU)	0.30	0.30 (0.2%)	2.13 (1.7%)	0.22 (0.2%)	3.64 (3.5%)	10.60 (9.0%)	2.62 (2.6%)	1.28 (1.5%)	0.13 (0.2%)	0.19 (0.3%)	3.77 (5.4%)
MLC IncomeBuilder (MLC0097AU)	11.62	16.10 (6.9%)	22.84 (9.7%)	12.46 (4.9%)	17.19 (6.9%)	16.54 (5.9%)	23.25 (8.6%)	13.80 (5.6%)	19.48 (9.8%)	8.34 (3.9%)	7.88 (3.6%)
MLC Australian Share Fund (MLC0015AU)	1.87	3.88 (2.0%)	9.36 (5.0%)	3.63 (2.1%)	11.43 (6.6%)	8.58 (4.7%)	7.92 (4.5%)	6.12 (3.8%)	3.58 (2.7%)	4.46 (2.9%)	4.82 (3.2%)
MLC-Vanguard Australian Share Index Fund (MLC0014AU)	8.60	11.65 (5.7%)	11.34 (5.8%)	15.22 (7.8%)	55.48 (24.0%)	9.94 (4.0%)	13.23 (5.4%)	12.62 (5.6%)	8.88 (4.8%)	9.19 (4.3%)	6.62 (3.3%)
MLC Property Securities Fund (MLC0013AU)	0.01	1.30 (1.2%)	2.27 (2.4%)	2.66 (2.8%)	3.30 (3.4%)	3.11 (3.6%)	3.00 (4.2%)	2.29 (3.2%)	1.54 (2.7%)	2.40 (4.3%)	1.97 (3.7%)
MLC Global Share Fund (MLC0017AU)	0.12	0.12 (0.1%)	0.47 (0.2%)	-	4.83 (3.0%)	24.45 (13.1%)	2.01 (1.3%)	1.16 (0.9%)	0.13 (0.1%)	0.02 (0.02%)	0.03 (0.03%)
MLC-Platinum Global Fund (MLC0060AU)	6.69	6.69 (3.7%)	14.37 (7.0%)	24.66 (12.1%)	10.41 (5.7%)	20.73 (9.5%)	30.52 (15.3%)	-	-	-	-

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

² 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. A fund's total return includes unit price movements (ie capital growth) and its income distribution. Total returns are available at mlc.com.au



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