



MLC MasterKey Investment Service

MLC MasterKey Unit Trust

End of year distribution commentary, 2019 financial year

3 June 2019

Background

On Friday, 31 May 2019 the last cash distribution for the 2019 financial year (FY2019) 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 2019 at mlc.com.au. Final tax components will be provided in 2018/19 MLC MasterKey tax statements, sent to investors 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 nine years.

Commentary for full year cash distributions for FY2019

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 FY2019

MLC MasterKey Unit Trust fund (APIR code)	Cpu for May 2019 qtr	Full year cpu		Full year cash distribution for FY2019 commentary
		2018/19	2017/18	
MLC Horizon 1 – Bond Portfolio (MLC0622AU)	0.98	1.30	0.52	Significantly higher than FY2018. Please refer to page 4 for the factors that affected 'Fixed income' this year.
MLC Horizon 2 – Income Portfolio (MLC0021AU)	0.80	1.37	1.08	Moderately higher than FY2018. The Fund continued to have carried forward capital losses at the end of FY2019. Please refer to page 4 'Carried forward capital losses' for information on their effect on distributions.

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, MLC Global Property Fund and MLC Hedged Global Share 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 2019 qtr	Full year cpu		Full year cash distribution for FY2019 commentary
		2018/19	2017/18	
MLC Horizon 3 – Conservative Growth Portfolio (MLC0393AU)	3.24	3.80	4.70	Similar but lower than FY2018 due to a decrease in realised capital gains. The Fund’s capital gains have been elevated in recent years due to strong returns from share investments.
MLC Horizon 4 – Balanced Portfolio (MLC0023AU)	4.94	6.19	1.41	Significantly higher than FY2018 because of: <ul style="list-style-type: none"> an increase in dividends, and an increase in realised capital gains as the Fund no longer has carried forward capital losses which had significantly reduced the distributions in previous years. Please refer to page 4 for information on ‘Carried forward capital losses’.
MLC Horizon 5 – Growth Portfolio (MLC0024AU)	2.87	3.93	1.15	
MLC Horizon 6 – Share Portfolio (MLC0394AU)	7.19	7.19	4.59	Significantly higher than FY2018 because of: <ul style="list-style-type: none"> an increase in dividends, and an increase in realised capital gains. The Fund’s capital gains have been elevated in recent years due to strong returns from share investments.
MLC Horizon 7 – Accelerated Growth Portfolio (MLC0448AU)	2.13	2.13	0.22	Significantly higher than FY2018 because of an increase in dividends. The Fund continued to have carried forward capital losses at the end of FY2019. Please refer to page 4 ‘Carried forward capital losses’ for information on their effect on distributions.
MLC IncomeBuilder (MLC0097AU)	17.30	22.84	12.46	Significantly higher than FY2018 due to: <ul style="list-style-type: none"> an increase in the Fund’s underlying income, comprising dividend, Real Estate Investment Trust (REIT), interest and other income, and an increase in capital gains which were higher in FY2019 due to stronger returns from the industrials sector of the Australian share market than in FY2018. <p>For more information about the distribution of MLC IncomeBuilder please refer to the MLC IncomeBuilder annual distribution commentary, which will be available mid June 2019 on mlc.com.au.</p>

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MLC MasterKey Unit Trust fund (APIR code)	Cpu for May 2019 qtr	Full year cpu		Full year cash distribution for FY2019 commentary
		2018/19	2017/18	
MLC Australian Share Fund (MLC0015AU)	2.23	9.36	3.63	Significantly higher than FY2018 because of an increase in dividends. The Fund continued to have carried forward capital losses at the end of FY2019. Please refer to page 4 'Carried forward capital losses' for information on their effect on distributions.
MLC-Vanguard Australian Share Index Fund (MLC0014AU)	3.99	11.34	15.22	Moderately lower than FY2018 due to a decrease in realised capital gains. This decrease more than offset an increase in the Fund's distribution of dividends.
MLC Property Securities Fund (MLC0013AU)	0.81	2.27	2.66	Similar to FY2018. The Fund continued to have carried forward capital losses at the end of FY2019. Please refer to page 4 'Carried forward capital losses' for information on their effect on distributions.
MLC Global Share Fund (MLC0017AU)	0.47	0.47	-	Higher than the Fund's zero distribution in FY2018. The Fund continued to have carried forward capital losses at the end of FY2019. Please refer to page 4 'Carried forward capital losses' for information on their effect on distributions.
MLC-Platinum Global Fund (MLC0060AU)	14.37	14.37	24.66	Moderately lower than FY2018 due to a decrease in capital gains.
MLC Australian Share Value Style Fund (MLC0453AU)	-	0.28	2.09	The Funds terminated in November 2018, with the net proceeds of the sale of the Funds' assets returned to investors. The Funds' paid their final distribution to investors on 20 November 2018.
MLC Australian Share Growth Style Fund (MLC0002AU)	-	2.80	2.56	
MLC Global Share Value Style Fund (MLC0455AU)	-	-	1.42	
MLC Global Share Growth Style Fund (MLC0454AU)	-	111.34	0.64	

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



Key factors affecting cash distributions in FY2019

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. 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 FY2019.

Fixed income

Income from fixed income investments produced higher levels of income this year than in FY2018 due to falling bond yields. In the long run, lower bond yields and interest rates should result in lower distributions of interest income. However, when interest rates and yields are falling, the value of a funds' fixed income securities generally increases, which flows through to higher returns and increases the income distribution that year.

Carried forward capital losses

Capital losses significantly reduce the level of distributions. During the GFC of 2008-9 and the first few years afterwards, markets were weak and volatile. Most funds suffered large capital losses when they sold 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 FY2019 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 2019, there are a few weeks before the end of the Australian taxation year on 30 June so you can assess the impact on your portfolio.

The estimated tax components for the funds will be available mid June 2019 at mlc.com.au. Final tax components are provided in investors' MLC MasterKey tax statements.

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.

Appendix 1: Financial year distribution history

Table 2 shows the cpu distributions paid for the May 2019 quarter along with the full financial year (1 June to 31 May) distributions for the last nine years.

Table 2 – Cash distribution history

Fund	May 2019 qtr cpu	Full year cpu (yield) ²	Full year cpu (yield) ²							
			2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12
MLC Horizon 1 – Bond Portfolio	0.98	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	0.80	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	3.24	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	4.94	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	2.87	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	7.19	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	2.13	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	17.30	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	2.23	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	3.99	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	0.81	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	0.47	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	14.37	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



Important information

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