



MLC Wholesale funds

End of year pre-distribution commentary, 2020 financial year
23 June 2020

Background

On Tuesday, 30 June 2020 the last cash distribution for the 2020 financial year (FY2020) will be made to investors in the MLC Wholesale funds, including those offered in:

- MLC MasterKey Investment Service Fundamentals
- MLC Wrap
- Navigator platforms
- MLC MasterKey Investment Service¹, and
- external platforms.

As the final cash distributions for FY2020 won't be known until 30 June, we've provided commentary using recent years' distributions as a reference point. Appendix 1 provides the full financial year (1 July to 30 June) distributions for the last seven years.

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 at mlcam.com.au in late July 2020. To assist investors in the preparation of their tax return, the final taxation components will also be reflected in financial year 2019/2020 tax statements for the Funds. We estimate the tax statements will be sent in August to those investing in MLC Wholesale directly. Investors in MLC Wholesale through a platform will receive tax information from their platform.

Commentary for expected full year cash distributions for FY2020

Commentary on the final distributions we are generally expecting, compared to FY2019 distributions, is provided in Table 1.

Table 1 – Commentary on expected cash distributions for FY2020

MLC Wholesale fund (APIR code)	Expected <u>full year</u> cash distribution for FY2020* commentary
MLC Wholesale Horizon 1 Bond Portfolio (MLC0669AU)	Slightly lower than FY2019. Please refer to page 6 for 'Interest income has reduced' for more information.

¹ 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 have a June year end and are covered by this commentary.



MLC Wholesale funds

End of year pre-distribution commentary, 2020 financial year
23 June 2020

MLC Wholesale fund (APIR code)	Expected <u>full year</u> cash distribution for FY2020* commentary
MLC Wholesale Horizon 2 Income Portfolio (MLC0670AU)	Similar to FY2019.
MLC Wholesale Horizon 3 Conservative Growth Portfolio (MLC0398AU)	Slightly lower than FY2019 due to a decrease in dividend income. Please refer to page 5 'Dividend income has reduced' for more information.
MLC Wholesale Horizon 4 Balanced Portfolio (MLC0260AU)	<p>Despite a reduction in dividend income, the distribution was significantly higher than FY2019 due to an increase in realised capital gains. The Fund no longer has carried forward capital losses which had reduced the distribution in previous years.</p> <p>Please refer to page 5 'Dividend income has reduced' and 'Why funds have distributed realised capital gains when their unit prices have fallen' for more information.</p>
MLC Wholesale Horizon 5 Growth Portfolio (MLC0265AU)	<p>Moderately lower than FY2019 due to a reduction in dividend income. Please refer to page 4 'Dividend income has reduced'.</p> <p>At the end of FY2020 the Fund is expected to continue to have carried forward capital losses. Please refer to page 6 'Carried forward capital losses' for information on their effect on distributions.</p>
MLC Wholesale Horizon 6 Share Portfolio (MLC0397AU)	<p>Similar to FY2019.</p> <p>Please refer to page 5 'Dividend income has reduced' and 'Why funds have distributed realised capital gains when their unit prices have fallen' for more information.</p>
MLC Wholesale Horizon 7 Accelerated Growth Portfolio (MLC0449AU)	<p>Significantly higher than FY2019 due to an increase in realised capital gains. The Fund no longer has carried forward capital losses which had reduced the distribution in previous years.</p> <p>Please refer to page 5 'Why funds have distributed realised capital gains when their unit prices have fallen' for more information.</p>
MLC Wholesale Inflation Plus – Conservative Portfolio (MLC0921AU)	Slightly higher than FY2019 because of an increase in realised capital gains due to profits from defensive currency positions, derivatives (eg tail risk protection), gold, and portfolio repositioning.
MLC Wholesale Inflation Plus – Moderate Portfolio (MLC0920AU)	Moderately higher than FY2019 because of an increase in realised capital gains due to profits from defensive currency positions, derivatives (eg tail risk protection), gold, and portfolio repositioning.



MLC Wholesale funds

End of year pre-distribution commentary, 2020 financial year
23 June 2020

MLC Wholesale fund (APIR code)	Expected <u>full year</u> cash distribution for FY2020* commentary
MLC Wholesale Inflation Plus – Assertive Portfolio Class A (MLC0667AU)	Significantly higher than FY2019 because of an increase in realised capital gains due to profits from defensive currency positions, derivatives (eg tail risk protection), gold, and portfolio repositioning.
MLC Wholesale Inflation Plus – Assertive Portfolio Class B (MLC0668AU)	
MLC Wholesale Index Plus Conservative Growth Portfolio (MLC7849AU)	Slightly lower than FY2019 due to a reduction in dividend income. Please refer to page 5 ‘Dividend income has reduced’ and ‘Why funds have distributed realised capital gains when their unit prices have fallen’ for more information.
MLC Wholesale Index Plus Balanced Portfolio (MLC7387AU)	
MLC Wholesale Index Plus Growth Portfolio (MLC9748AU)	
MLC Wholesale IncomeBuilder (MLC0264AU)	Moderately lower than FY2019 due to: <ul style="list-style-type: none"> • a decrease in the Fund’s underlying income, comprising dividend, Real Estate Investment Trust (REIT) distributions, 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 Wholesale IncomeBuilder’s annual distribution commentary will also be available mid July 2020 on mlc.com.au.</p> <p>Additionally, please refer to page 5 ‘Dividend income has reduced’ and ‘Why funds have distributed realised capital gains when their unit prices have fallen’.</p>
MLC Wholesale Australian Share Fund (MLC0262AU)	Moderately lower than FY2019 due to a reduction in dividend income. Please refer to page 5 ‘Dividend income has reduced’ and ‘Why funds have distributed realised capital gains when their unit prices have fallen’ for more information.
MLC Wholesale Australian Share Index Fund (MLC0893AU)	Slightly lower than FY2019 due to a reduction in dividend income. Please refer to page 5 ‘Dividend income has reduced’ and ‘Why funds have distributed realised capital gains when their unit prices have fallen’ for more information.
MLC Wholesale Property Securities Fund (MLC0263AU)	Moderately lower than FY2019. Please refer to page 5 ‘Real Estate Investment Trusts’ income has reduced’. At the end of FY2020 the Fund is expected to continue to have carried forward capital losses. Please refer to page 6 ‘Carried forward capital losses’ for information on their effect on distributions.



MLC Wholesale funds

End of year pre-distribution commentary, 2020 financial year
23 June 2020

MLC Wholesale fund (APIR code)	Expected <u>full year</u> cash distribution for FY2020* commentary
MLC Wholesale Global Property Fund Class A (MLC0786AU)	Similar to the Fund's very small distribution of 0.01 cpu in FY2019.
MLC Wholesale Global Property Fund Class B (MLC0784AU)	At the end of FY2020, the Fund is expected to continue to have carried forward revenue losses which reduce the Fund's distributions. Please refer to page 6 'Carried forward revenue losses' for information on their effect on distributions.
MLC Wholesale Global Share Fund (MLC0261AU)	Moderately higher than FY2019 due to an increase in realised capital gains. Please refer to page 5 'Why funds have distributed realised capital gains when their unit prices have fallen' for more information.
MLC Wholesale Hedged Global Share Fund Class A (MLC0787AU)	The Fund terminated in August 2019, with the net proceeds of the sale of the Fund's assets returned to investors in its final distribution on 26 August 2019.
MLC Wholesale Hedged Global Share Fund Class B (MLC0785AU)	
MLC-Platinum Global Fund (MLC0317AU)	The Fund terminated in January 2020, with the net proceeds of the sale of the Fund's assets returned to investors in its final distribution on 15 January 2020.
MLC Wholesale Diversified Debt Fund Class A (MLC0839AU)	Moderately higher than FY2019 due to an increase in profits resulting from buying and selling fixed income securities. The Fund no longer has carried forward capital losses which had reduced the distribution in previous years.
MLC Wholesale Diversified Debt Fund Class B (MLC0855AU)	

* This commentary may be materially affected by factors including:

- investment market movements
- investment manager trading activity
- differences in the tax treatment, and
- realisation of gains and losses between now and 30 June 2020.

Key factors affecting distributions in FY2020

MLC Inflation Plus, MLC Horizon and MLC Index Plus 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 portfolios.

MLC's share funds (except for MLC IncomeBuilder), and the MLC multi-asset 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.



MLC Wholesale funds

End of year pre-distribution commentary, 2020 financial year
23 June 2020

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 mlcam.com.au and in our fund commentaries available at mlcam.com.au.

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 Wholesale Australian Share Fund
- MLC Wholesale Horizon 3 to 7 portfolios
- MLC Wholesale 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.



MLC Wholesale funds

End of year pre-distribution commentary, 2020 financial year
23 June 2020

Interest income has reduced

Fixed income investments generally 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 we expect to have carried forward capital losses at the end of FY2020 are:

- MLC Wholesale Horizon 5 Growth Portfolio
- MLC Wholesale Property Securities 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.

Carried forward revenue losses

Revenue losses occur when a fund's expenses are higher than its income. Revenue income includes dividends and interest and is also impacted by foreign currency gains (and losses) and returns from certain assets. However, revenue income doesn't include capital gains. Revenue losses are kept in the fund and are carried forward until they can be offset against future revenue income and capital gains. Revenue losses reduce the level of distributions and are carried forward until they can be offset against future revenue income.

The funds we expect to have carried forward revenue losses at the end of FY2020 are:

- MLC Wholesale Global Property Fund Class A
- MLC Wholesale Global Property Fund Class B

Next steps

As the cash distribution is on 30 June 2020, there are a few days before the end of the Australian taxation year.

In the week following the distribution we'll update this commentary with the final cpu distribution. The estimated tax components will be available late July 2020. This information will be available on mlcam.com.au.

The final taxation components will also be reflected in financial year 2019/20 tax statements for the Funds, which are estimated to be available in August for those investing in MLC Wholesale directly. Investors in MLC Wholesale through a platform will receive tax information from their platform.

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 MLC Investment Trust Fund Profile Tool on mlcam.com.au and is updated monthly.

MLC Wholesale funds

End of year pre-distribution commentary, 2020 financial year
23 June 2020

Appendix 1: Financial year distribution history

Table 2 shows the full financial year (1 July to 30 June) distributions for the last seven years. As the final distributions for FY2020 won't be known until 30 June, the commentary provided in this communication uses recent years' distributions as a reference point.

* Distributions for the first three quarters of the financial year to end of March 2020 have been included so investors can consider amounts they've already received when reading the 'full year' commentary in Table 1. Some of the funds only distribute annually so they haven't distributed this financial year-to-date.

Table 2 – Cash distribution history

MLC Wholesale funds (APIR code)	Cpu for 1 st three qtrs of FY2020 (doesn't include 30 June 2020 distribution) *	Full year cpu (distribution yield) ²						
		2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13
MLC Wholesale Horizon 1 Bond Portfolio (MLC0669AU)	0.56	1.88 (1.9%)	2.16 (2.1%)	3.15 (3.1%)	2.59 (2.5%)	2.14 (2.1%)	2.51 (2.5%)	3.14 (3.1%)
MLC Wholesale Horizon 2 Income Portfolio (MLC0670AU)	0.75	3.71 (3.6%)	3.64 (3.5%)	3.55 (3.5%)	6.83 (6.4%)	3.13 (3.0%)	2.45 (2.5%)	3.51 (3.8%)
MLC Wholesale Horizon 3 Conservative Growth Portfolio (MLC0398AU)	0.91	5.08 (4.5%)	4.36 (4.0%)	3.43 (3.3%)	6.71 (6.0%)	3.65 (3.5%)	2.46 (2.5%)	2.83 (3.2%)
MLC Wholesale Horizon 4 Balanced Portfolio (MLC0260AU)	0.95	3.22 (2.7%)	2.19 (2.0%)	3.88 (3.7%)	7.56 (6.8%)	4.69 (4.5%)	2.73 (2.9%)	2.71 (3.2%)
MLC Wholesale Horizon 5 Growth Portfolio (MLC0265AU)	0.98	3.18 (2.6%)	2.09 (1.9%)	4.02 (3.9%)	8.94 (7.9%)	4.58 (4.4%)	2.72 (2.9%)	2.36 (3.0%)
MLC Wholesale Horizon 6 Share Portfolio (MLC0397AU)	0.00	9.00 (7.4%)	2.00 (1.8%)	4.55 (4.6%)	9.71 (8.8%)	4.35 (4.3%)	2.54 (2.9%)	1.56 (2.2%)
MLC Wholesale Horizon 7 Accelerated Growth Portfolio (MLC0449AU)	0.00	4.13 (2.6%)	1.57 (1.1%)	5.45 (4.6%)	14.14 (10.4%)	4.67 (3.9%)	2.21 (2.2%)	0.91 (1.2%)

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 mlcam.com.au



MLC Wholesale funds

End of year pre-distribution commentary, 2020 financial year
23 June 2020

MLC Wholesale funds (APIR code)	Cpu for 1 st three qtrs of FY2020 (doesn't include 30 June 2020 distribution) *	Full year cpu (distribution yield) ²						
		2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13
MLC Wholesale Inflation Plus – Conservative Portfolio (MLC0921AU)	0.50	3.92 (3.7%)	2.08 (2.0%)	2.21 (2.1%)	2.99 (2.8%)	5.06 (5.0%)	2.11 ³	n/a
MLC Wholesale Inflation Plus – Moderate Portfolio (MLC0920AU)	0.31	4.00 (3.7%)	2.98 (2.8%)	2.94 (2.8%)	3.75 (3.5%)	6.31 (6.2%)	3.17 ³	n/a
MLC Wholesale Inflation Plus – Assertive Portfolio Class A (MLC0667AU)	0.00	3.00 (3.2%)	1.49 (1.7%)	4.71 (5.3%)	8.12 (8.4%)	11.68 (12.5%)	2.05 (2.4%)	0.95 (1.3%)
MLC Wholesale Inflation Plus – Assertive Portfolio Class B (MLC0668AU)	0.00	1.62 (1.7%)	0.17 (0.2%)	3.49 (3.9%)	6.84 (7.0%)	10.18 (10.9%)	1.44 (1.6%)	0.18 (0.2%)
MLC Wholesale Index Plus Conservative Growth Portfolio (MLC7849AU)	0.72	3.30 (3.2%)	3.07 (3.1%)	n/a	n/a	n/a	n/a	n/a
MLC Wholesale Index Plus Balanced Portfolio (MLC7387AU)	0.82	3.93 (3.8%)	3.62 (3.6%)	n/a	n/a	n/a	n/a	n/a
MLC Wholesale Index Plus Growth Portfolio (MLC9748AU)	0.72	4.12 (3.9%)	3.98 (4.0%)	n/a	n/a	n/a	n/a	n/a
MLC Wholesale Australian Share Fund (MLC0262AU)	1.94	8.95 (8.9%)	10.03 (10.4%)	11.57 (12.2%)	6.14 (6.2%)	5.90 (6.0%)	4.78 (5.4%)	2.96 (3.9%)
MLC Wholesale IncomeBuilder (MLC0264AU)	4.67	16.04 (9.5%)	9.89 (5.7%)	13.43 (8.2%)	11.80 (6.4%)	18.98 (10.4%)	10.99 (6.7%)	10.60 (7.8%)

³ Partial year, as the fund was launched in October 2013.



MLC Wholesale funds

End of year pre-distribution commentary, 2020 financial year
23 June 2020

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		2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13
MLC Wholesale Australian Share Index Fund (MLC0893AU)	3.25	9.00 (6.6%)	10.78 (8.2%)	9.19 (7.4%)	5.00 (3.9%)	5.29 (4.2%)	5.81 (5.2%)	5.11 (5.2%)
MLC Wholesale Global Share Fund (MLC0261AU)	0.00	8.66 (8.8%)	19.82 (19.3%)	3.85 (4.3%)	15.99 (14.8%)	2.15 (2.4%)	1.45 (1.9%)	0.46 (0.8%)
MLC Wholesale Property Securities Fund (MLC0263AU)	1.72	2.40 (3.5%)	2.73 (4.2%)	3.23 (4.5%)	3.13 (5.2%)	2.83 (5.4%)	2.13 (4.3%)	1.65 (3.9%)
MLC Wholesale Global Property Fund Class A (MLC0786AU)	0.00	0.01 (0.0%)	0.04 (0.1%)	- (0.0%)	5.85 (8.7%)	2.07 (3.3%)	0.75 (1.4%)	0.75 (1.7%)
MLC Wholesale Global Property Fund Class B (MLC0784AU)	0.00	0.01 (0.0%)	0.05 (0.1%)	- (0.0%)	6.64 (8.6%)	2.38 (3.3%)	0.87 (1.4%)	0.09 (0.2%)
MLC Wholesale Diversified Debt Fund Class A (MLC0839AU)	1.09	3.25 (3.3%)	3.92 (3.9%)	4.33 (4.2%)	4.81 (4.7%)	4.27 (4.1%)	2.72 (2.7%)	4.54 (4.5%)
MLC Wholesale Diversified Debt Fund Class B (MLC0855AU)	0.17	1.97 (2.0%)	2.67 (2.7%)	2.99 (2.9%)	3.55 (3.5%)	3.00 (2.9%)	1.42 (1.4%)	3.37 (3.4%)

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



MLC Wholesale funds

End of year pre-distribution commentary, 2020 financial year
23 June 2020

Important information

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