



# MLC Wholesale IncomeBuilder

Annual distribution commentary, 2024 financial year  
4 July 2024

## Summary

This financial year was a positive year for investors who rely on Australian shares for income. The distributions from dividend income were slightly lower in the 2024 financial year (FY2024). The increases in dividend payments made by Australian banks, ANZ, CBA, NAB and Westpac were offset by moderately lower dividends from BHP and Woodside Energy.

On Sunday, 30 June 2024 the last cash distribution for FY2024 was made to investors in MLC Wholesale IncomeBuilder. Table 1 provides the annual cents per unit (cpu) distribution and its components for this financial year and the previous nine years for comparison.

**Table 1: MLC Wholesale IncomeBuilder distributions history**

Financial year ending 30 June	2023 /24	2022 /23	2021 /22	2020 /21	2019 /20	2018 /19	2017 /18	2016 /17	2015 /16	2014 /15
Total underlying income distribution* (cpu)	6.65	7.10	5.98	3.49	6.76	8.05	7.39	7.56	7.87	8.17
Capital gains (cpu)**	8.95	4.53	12.07	2.80	2.13	7.99	2.50	5.87	3.93	10.81
Total distributions (cpu)	15.60	11.63	18.05	6.29	8.89	16.04	9.89	13.43	11.80	18.98
Franking level of distributed income (excluding non-assessable capital gains)	53%	77%	48%	70%	79%	62%	82%	75%	86%	62%
Franking level of dividend income	88%	101%	97%	99%	92%	93%	96%	101%	99%	102%

\* 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 FY2024, the fund's:

- total distribution is moderately higher than last year mainly due to an increase in capital gains income.
- underlying income is mostly franked dividends which provide investors with a tax-efficient income stream.
- capital gains were higher 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.

## 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 medium term, reflecting the dividend policies of the companies the fund invests in.

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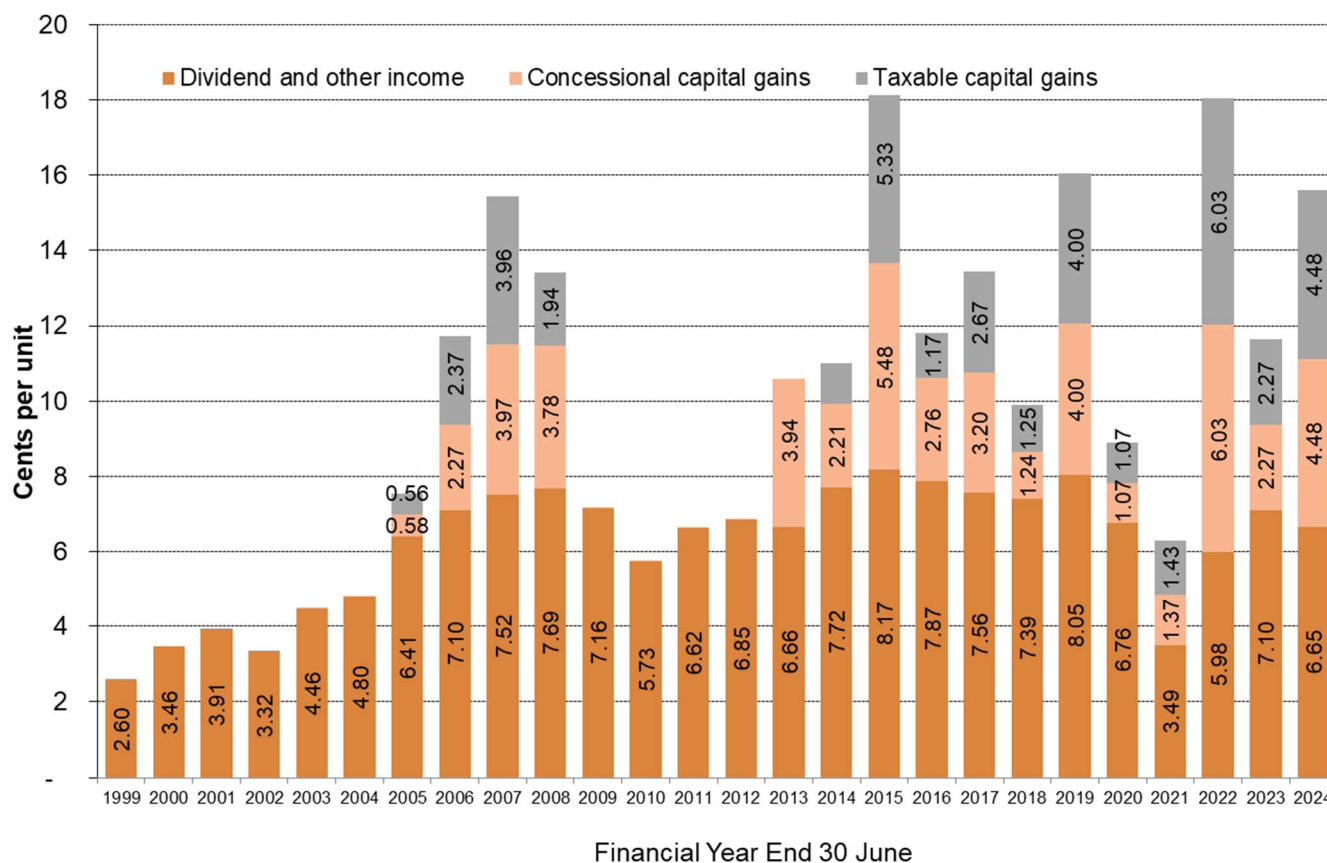
We continue to believe the investment approaches of our investment managers and regular fund distributions provides a more reliable way of delivering sustainable long-term tax efficient income to investors.

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 to contain COVID-19, dividends were significantly impacted in 2021. However as the economy normalised, many companies recommenced paying their regular dividends in 2022, although some companies continued to experience challenges post the COVID-19 period.

In FY2024 the fund's net income was adequate to distribute in each quarter (September, December, March and June).

Chart 1 shows that when you look back over the almost 30 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 Wholesale IncomeBuilder annual distributions**



**Source:** MLC Wholesale 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. Figures are rounded to two decimal places.

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



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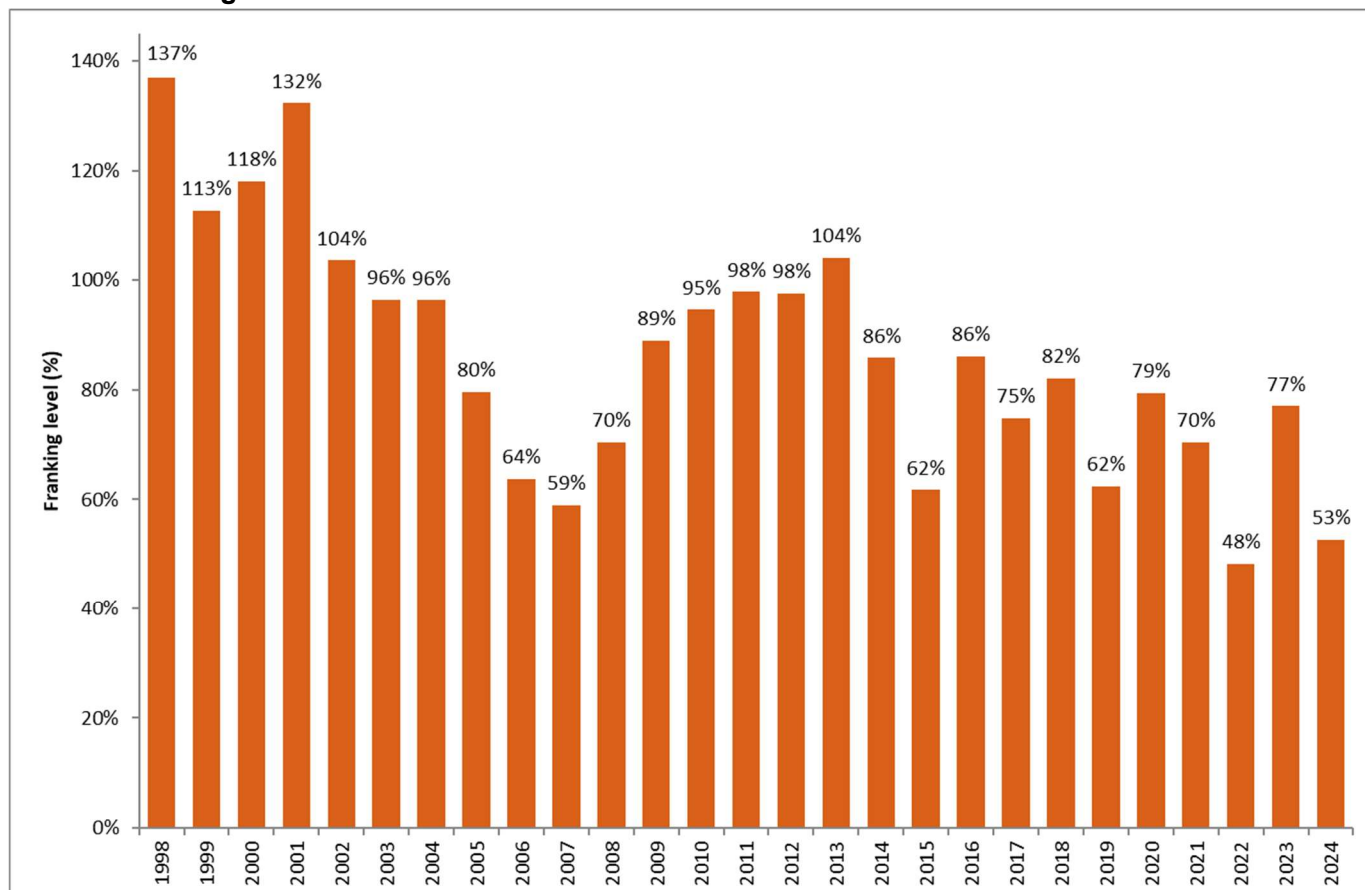
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### Franking levels

MLC Wholesale IncomeBuilder has delivered a tax-efficient income stream with a franking level of 53% this year (Chart 2).

Since its inception, the fund has generally 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 Wholesale IncomeBuilder**



**Source:** MLC Wholesale 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 Equities 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



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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.

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 grey 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.

### Dividends from the fund's investments

Table 2 shows dividends paid by MLC Wholesale IncomeBuilder's larger company holdings in FY2024 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.



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**Table 2: Dividends paid in FY2024, by MLC Wholesale IncomeBuilder's largest company holdings, ordered from large to small exposures**

Company	Dividend (\$ per share)	% change in dividend compared to FY2023
National Australia Bank	\$1.67	11%
Westpac Banking Corporation	\$1.62	21%
ANZ Group Holdings	\$1.75	20%
Telstra Group	\$0.18	3%
Coles Group	\$0.66	0%
Commonwealth Bank	\$4.55	8%
BHP Group	\$2.35	-40%
Suncorp Group	\$0.61	22%
Woodside Energy Group	\$2.16	-42%
CSL	\$3.81	13%
Insurance Australia Group	\$0.19	73%
Nine Entertainment	\$0.09	-31%
QBE Insurance Group	\$0.62	59%
Orica	\$0.43	23%
Lottery Corp.	\$0.14	56%
Metcash	\$0.22	-2%
Brambles	\$0.45	28%
Seven Group Holdings	\$0.46	0%
Incitec Pivot	\$0.41	51%
Ansell	\$0.65	-12%
Amcor Plc	\$0.77	6%
Origin Energy	\$0.48	44%

**Source:** ASX, MLC Asset Management Services Limited. Securities mentioned in this commentary may no longer be held in MLC Wholesale IncomeBuilder.

### Outlook

The fund's income distributions have rebounded strongly following the impact of COVID-19 lockdowns on earnings. We must be mindful however that as Australia's economy faces challenges with weakening retail spending and housing construction, domestic facing companies' earnings growth expectations are relatively flat. Consumer inflation has been more persistent at 4.0%\* in the year to May 2024, which is also putting some negative pressure on company earnings where cost increases cannot be passed on as well as lower consumer confidence and consumer spending.

The active investment style and deep company research practiced by both our managers, Antares Equities and Maple-Brown Abbott, will help position the fund's investments appropriately as the economy continues to face uncertainty with regard to the outlook for interest rates, inflation and growth.

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



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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.

\*Australian Bureau of Statistics, Monthly Consumer Price Index Indicator.

Up-to-date commentary on the performance of MLC Wholesale IncomeBuilder, including information on the dividends declared by underlying companies, is available on the Fund Profile Tool at [mlcam.com.au](https://mlcam.com.au)

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