



MLC MasterKey Unit Trust & MLC MasterKey Investment Service

End of year pre-distribution comment
22 May 2017

Summary

On Sunday, 28 May 2017 the last distribution for the 2017 financial year will be made to investors in the funds that comprise the MLC MasterKey Unit Trust, including those in the MLC MasterKey Investment Service¹.

The purpose of this note is to flag in advance of the final distributions that we are generally expecting:

- Funds with exposure to global shares to pay significantly lower distributions than in the 2016 financial year. Distributions from these funds were unusually high in the 2016 financial year because a large investor reallocated its significant investments across a number of MLC funds, and we made changes to our global shares investment managers during that year.
- MLC-Vanguard Australian Share Index Fund to pay a significantly larger final distribution of capital gains than in previous years. Our other Australian share funds, excluding MLC IncomeBuilder, are also expected to have higher distributions of capital gains than in 2016.
- Compared to the more 'normal' distribution in the 2015 financial year, MLC Horizon 2 to 5 portfolios are expected to have slightly lower distributions this financial year largely due to a decrease in interest and dividend income.

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.

What is causing the large capital gains for Australian share funds?

Our Australian share strategies, particularly the MLC-Vanguard Australian Share Index Fund, have had large outflows due to an investor reallocating its significant investments across a number of MLC funds. To fund the outflows, securities – most of which had grown substantially over time – were sold resulting in the realisation of capital gains. The funds must distribute all income, including realised capital gains, by the end of the financial year.

We anticipate approximately half of the realised capital gains will be concessional (or 'discounted') capital gains and therefore tax-free for individuals and superannuation fund investors. This is because most of the securities sold were held for more than a year, resulting in the distribution of discounted capital gains.

What are the distributions expected to be?

We can't provide the precise amount of the distributions at this stage, as there are several trading days before the funds' end of year.

How is the level of distributions determined?

Distributions are made up of income from the underlying investments held by the managed fund and are paid to investors after fees are deducted. These investments may be shares, property, bonds or cash, or a combination of these. This means a distribution could include interest earned, franked and unfranked dividends, tax deferred income, rental income and any realised capital gains (after deducting any capital losses) made from selling investments (which usually occurs in the last quarter of the financial year). For global investments, currency movements resulting in changes in the value of hedging contracts can also affect income distributions.

¹ MLC MasterKey Investment Service Fundamentals also invests in MLC Wholesale funds, which have a June year end. 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 also have a June year end. As a result, this commentary does not cover those products.



What do I need to do?

We are advising you of the large changes in the distributions so that you can assess the impact on your portfolio. As the distribution is at the end of May, there is a month before the end of the Australian taxation year on 30 June.

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

In the week following the distributions, we will prepare commentary with details of the final amount and income components. This information will be available on mlc.com.au.

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