MLC Wholesale
MLC MasterKey Investment Service Fundamentals

Annual distribution commentary
June 2013

1. Distributions for FY2013

The table below sets out the cents per unit (cpu) distributions paid for the June 2013 quarter and for the full 2013 financial year (1 July 2012 to 30 June 2013) for the MLC Wholesale funds, including those available in MLC MasterKey Investment Service Fundamentals and some available in MLC MasterKey Investment Service.

All MLC Wholesale funds listed in the table below, other than Class B funds, are available in MLC MasterKey Investment Service Fundamentals. The Class B funds are available in MLC MasterKey Investment Service.

For a breakdown of the taxation components of the distribution for the 2013 financial year, please refer to the 'MLC Wholesale Trusts – Distribution Tax Components for the Year Ending June 2013'. This document is also available on **mlcinvestmenttrust.com.au**.

Fund	June 2013 quarter cpu	Full year cpu (yield)[1]				
		2012/13	2011/12	2010/11	2009/10	2008/9
MLC Horizon 1 – Bond Portfolio	1.11	3.14 (3.1%)	2.89 (2.9%)	5.41 (5.5%)	4.14 (4.3%)	5.89 (6.1%)
MLC Horizon 2 – Income Portfolio	1.62	3.51 (3.8%)	3.39 (3.7%)	5.12 (5.7%)	4.35 (5.1%)	5.50 (5.7%)
MLC Horizon 3 – Conservative Growth Portfolio	1.43	2.83 (3.2%)	2.75 (3.1%)	4.89 (5.6%)	4.81 (5.8%)	5.23 (5.3%)
MLC Horizon 4 – Balanced Portfolio	1.47	2.71 (3.2%)	2.62 (3.1%)	4.95 (6.0%)	4.16 (5.3%)	5.32 (5.2%)
MLC Horizon 5 – Growth Portfolio	1.28	2.36 (3.0%)	2.85 (3.4%)	5.18 (6.4%)	3.41 (4.5%)	5.36 (5.1%)
MLC Horizon 6 – Share Portfolio	1.56	1.56 (2.2%)	1.78 (2.3%)	5.09 (6.9%)	3.63 (5.3%)	4.59 (4.9%)
MLC Horizon 7 – Accelerated Growth Portfolio	0.91	0.91 (1.2%)	1.03 (1.2%)	5.68 (7.1%)	5.45 (7.4%)	5.05 (4.4%)

[1] 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.

Fund	June 2013 quarter cpu	Full year cpu (yield)[1]				
		2012/13	2011/12	2010/11	2009/10	2008/9
MLC Long-Term Absolute Return Portfolio Class A	0.95	0.95 (1.3%)	3.00 (4.0%)	4.22 (6.0%)	7.66 (11.5%)	2.13 (2.5%)
MLC Long-Term Absolute Return Portfolio Class B	0.18	0.18 (0.2%)	1.84 (2.4%)	3.32 (4.7%)	6.78 (10.1%)	1.33 (1.5%)
MLC Australian Share Fund	1.20	2.96 (3.9%)	3.41 (3.9%)	3.66 (4.4%)	2.69 (3.4%)	4.76 (5.0%)
MLC Australian Share Value Style Fund	0.83	3.86 (5.7%)	4.64 (5.7%)	3.41 (4.3%)	2.90 (3.9%)	6.75 (7.4%)
MLC Australian Share Growth Style Fund	1.55	2.71 (3.0%)	2.75 (2.7%)	3.96 (4.2%)	2.62 (2.9%)	2.14 (2.1%)
MLC IncomeBuilder	5.89	10.60 (7.8%)	6.87 (4.8%)	6.63 (4.7%)	5.77 (4.2%)	7.17 (4.9%)
MLC Australian Share Index Fund	2.22	5.11 (5.2%)	1.77[1] (-)	n/a	n/a	n/a
MLC Global Share Fund	0.46	0.46 (0.8%)	0.69 (1.1%)	0.68 (1.1%)	0.66 (1.2%)	0.64 (0.9%)
MLC Hedged Global Share Fund Class A	0.06	0.06 (0.1%)	0.01 (0.0%)	6.59 (13.2%)	9.53 (18.7%)	0.00 (0.0%)
MLC Hedged Global Share Fund Class B	0.06	0.06 (0.1%)	0.01 (0.0%)	5.93 (12.0%)	8.58 (17.1%)	0.00 (0.0%)
MLC Global Share Value Style Fund	1.05	1.05 (1.6%)	1.04 (1.5%)	0.88 (1.3%)	0.50 (0.8%)	0.10 (0.1%)
MLC Global Share Growth Style Fund	0.23	0.23 (0.3%)	0.20 (0.2%)	0.08 (0.1%)	0.07 (0.1%)	0.00 (0.0%)
MLC-Platinum Global Fund	-	-	0.84 (1.2%)	0.79 (1.1%)	4.50 (6.8%)	9.40 (13.6%)
MLC Property Securities Fund	1.05	1.65 (3.9%)	2.09 (5.3%)	1.78 (4.6%)	2.74 (7.7%)	3.22 (4.2%)
MLC Global Property Fund Class A	0.71	0.75 (1.7%)	0.11 (0.2%)	8.72 (20.8%)	5.58 (15.6%)	0.52 (0.7%)
MLC Global Property Fund Class B	0.05	0.09 (0.2%)	0.13 (0.2%)	9.50 (19.1%)	5.30 (12.7%)	0.59 (0.7%)
MLC Diversified Debt Fund Class A	2.13	4.54 (4.5%)	4.66 (4.9%)	4.44 (4.8%)	4.81 (5.4%)	7.51 (7.8%)
MLC Diversified Debt Fund Class B	1.77	3.37 (3.4%)	3.72 (3.9%)	3.44 (3.7%)	3.95 (4.4%)	6.81[2] (-)

Commentary on each fund's distribution is in section 3.

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

[2] Partial year.

2. Key factors affecting distributions in FY2013

MLC's share funds (except for MLC IncomeBuilder), and the MLC Horizon portfolios with high allocations to shares, are designed to provide capital growth. Athough they make distributions, their main objective is to increase the value of their assets for investors, rather than to deliver an income stream.

Here are the key factors that affected distributions in FY 2013.

Capital losses carried forward

Capital losses had a significant impact on the level of distributions. During the global financial crisis (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 capital gains.

Share markets across the world have mostly strengthened this year and many funds have generated capital gains. However, for most funds the gains haven't been distributed, as they're offset by the losses carried forward. In most funds, these losses will continue to reduce distributions.

The impact of a high Australian dollar

A number of the funds hold overseas shares. We hedge part of these holdings to reduce the funds' exposure to movements in the Australian dollar (AUD).

Over most of FY2013 the AUD remained fairly high compared with FY2012 and with other major currencies (for example, the AUD traded between around USD1.00 and USD 1.06 until mid May, when it fell sharply). The stronger AUD meant that income distributions from unhedged global shares, and the amount received if the shares were sold, were worth less in Australian dollars. For funds that have a large allocation to unhedged shares, this reduced distributions.

The FAQ in section 4 explains more about hedging.

Foreign losses

Due to tax rules, some foreign losses from previous years (such as foreign exchange losses) continued to be carried forward this year. This also impacted distributions. You can read more about this in the FAQ.

Australian shares

The Australian share market performed very strongly during most of FY2013, with the S&P/ASX200 Accumulation Index rising 22.8% over the year (this included both the movement in share prices and dividends paid). The market's upward trend until mid May contrasted with its volatile performance in FY2012. It created opportunities for share fund managers to sell investments at higher prices, locking in (or 'realising') capital gains. However, most funds that invest in Australian shares have large capital losses from previous years and these tended to offset the capital gains.

Across the Australian market, company earnings were flat. Despite this, some firms chose to make small increases in their dividends. Investors increasingly looked for companies with a high dividend yield, which pushed up their share prices. MLC's Australian shares portfolio managers balanced their portfolios between some of these companies and firms with stronger growth prospects. While this mix of investments meant dividend income for the Australian shares funds was lower in FY2013, these funds are well positioned to provide future capital growth.

MLC IncomeBuilder, which is managed differently to MLC's other Australian shares portfolios, is discussed on page 6.

Global shares

International share markets rose over FY2013 as investors became more optimistic about the global outlook. Although company earnings remained flat, companies generally increased their dividends to meet investors' expectations. However, overseas companies tend to pay lower levels of dividends than Australian companies. As a result, the expenses of a fund mostly offset dividend income from global shares.

The rising markets meant many funds realised capital gains when they sold investments. In most cases these gains were offset by capital losses that remained in the funds from the GFC and the years of weak markets that followed.

Australian property securities

Listed Australian real estate investment trusts (REITs) performed very strongly in FY2013. Income yields on many REITs were higher than on bonds or term deposits, and investor demand pushed up REIT prices. REITs are generally in good financial shape, with less debt and distribution payout policies at more sustainable levels than during the GFC.

The rising REIT market meant the MLC Property Securities Fund realised capital gains when it sold investments. These gains were offset by capital losses that remained in the fund from the GFC and the years of weak markets that followed.

The distribution from Australian REITs was lower in FY2013, mainly because of a change to the treatment of distribution components of three large REITs: Stockland Trust, Westfield Retail Trust and Westfield Group. A part of each of their distributions was classed as capital gains this year. This was offset against the fund's capital losses carried forward, reducing the distribution.

Global property

Global REIT market conditions have also been robust. Although in most markets REIT income yields are low compared with historic averages, prices for global REITs have risen because their yield is higher than global bond yields.

The rising markets meant the global property strategies realised capital gains when investments were sold. These gains were offset by capital losses from the GFC and the years of weak markets afterwards.

Fixed income

Cash

Income from cash was lower because the Reserve Bank of Australia cut their cash rate target from 3.50% to 2.75% in FY2013.

Short term bonds

Fixed income strategies with short terms to maturity (up to two years) produced slightly higher levels of income this year. This was mainly due to the continuing impact of a change in tax legislation in FY2012 that affected how income from bonds is calculated. Income from short-term bonds remained low both in Australia and overseas.

Longer term bonds

For fixed income strategies with longer terms to maturity, distributions decreased in FY2013. Although returns from longer-term bonds were strong, they were lower than last year, so distributions were lower.

3. Fund commentaries

MLC Horizon Series of portfolios

The MLC Horizon Series is a range of multi-manager, 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 described above. The allocations to the asset classes are different for each of the MLC Horizon Series of portfolios.

MLC Horizon 1 – Bond Portfolio

MLC Horizon 1 – Bond Portfolio made a FY2013 distribution of 3.14 cpu, compared to 2.89 cpu for FY2012. The fund is focused on capital preservation and therefore invests in fixed income securities with a relatively short term to maturity. While there was an increase in the fund's distribution, interest income remained low as bond yields have been low for a number of years.

MLC Horizon 2 – Income Portfolio

MLC Horizon 2 – Income Portfolio made a FY2013 distribution of 3.51 cpu, compared to 3.39 cpu for FY2012. Half of the fund's distribution was generated from its investment in bonds. Income from share and property investments was less than last year. The main reason the distribution rose slightly this year was an increase in realised capital gains.

MLC Horizon 3 – Conservative Growth Portfolio

MLC Horizon 3 – Conservative Growth Portfolio made a FY2013 distribution of 2.83 cpu, compared to 2.75 cpu for FY2012. Interest and dividend income was slightly less than last year. However, income generated from AUD hedging of global bonds increased.

MLC Horizon 4 – Balanced Portfolio

MLC Horizon 4 – Balanced Portfolio made a FY2013 distribution of 2.71 cpu, compared to 2.62 cpu for FY2012. Australian interest income increased slightly but global interest income and dividend income from shares in Australian and overseas companies was slightly less. The main reason the distribution rose slightly this year was an increase in realised capital gains.

MLC Horizon 5 – Growth Portfolio

MLC Horizon 5 – Growth Portfolio made a FY2013 distribution of 2.36 cpu, compared to 2.85 cpu for FY2012. Dividend income generated from the fund's investment in Australian and overseas companies was lower than last year. Income from fixed income securities was also less. However, the main reason the distribution was lower than in FY2012 was because most of the fund's global shares exposure is not hedged to the AUD (refer to page 3, 'The impact of a high Australian dollar').

MLC Horizon 6 – Share Portfolio

MLC Horizon 6 – Share Portfolio made a FY2013 distribution of 1.56 cpu, compared to a distribution of 1.78 cpu for FY2012. Dividend income generated from the fund's investment in Australian and overseas companies was lower than last year. The distribution was also lower than in FY2012 because most of the fund's global shares exposure is not hedged to the AUD (refer to page 3, 'The impact of a high Australian dollar').

MLC Horizon 7 – Accelerated Growth Portfolio
The distribution for MLC Horizon 7 – Accelerated Growth Portfolio for FY2013 was 0.91cpu, compared to 1.03 cpu for FY2012. The main reason the distribution was lower than last year was because most of the fund's global shares exposure is not hedged to the AUD (refer to page 3, 'The impact of a high Australian dollar'). Gearing costs, such as interest, also reduced the fund's distribution.

MLC Long-Term Absolute Return Portfolio (Classes A and B)
The distribution for MLC Long-Term Absolute Return Portfolio was:

- Class A – 0.95 cpu for FY2013, compared to 3.00 cpu for FY2012, and
- Class B – 0.18 cpu for FY2013, compared to 1.84 cpu for FY2012.

Dividend income generated from the fund's investment in Australian and overseas companies was lower than last year. Income from fixed income securities was also less. However, the main reason the distribution was lower than in FY2012 was because most of the fund's global shares exposure was not hedged to the AUD (refer to page 3, 'The impact of a high Australian dollar'). Gearing costs, such as interest, also reduced the fund's distribution.

Australian share funds

MLC Australian Share Fund
The fund's FY2013 distribution decreased from 3.41 cpu last year to 2.96 cpu this year due to the factors affecting Australian shares outlined on page 3. Most of this year's distribution consisted of fully franked dividends. Last year's distribution included more concessionally taxed capital gains.

MLC Australian Share Value Style Fund
The fund's FY2013 distribution decreased from 4.64 cpu last year to 3.86 cpu this year due to the factors affecting Australian shares outlined on page 3. Most of this year's distribution consisted of fully franked dividends. Last year's distribution included more concessionally taxed capital gains.

MLC Australian Share Growth Style Fund
The fund's FY2013 distribution decreased slightly from 2.75 cpu last year to 2.71 cpu this year due to the factors affecting Australian shares outlined on page 3. Most of this year's distribution consisted of fully franked dividends.

MLC IncomeBuilder
The fund provided a total distribution of 10.60 cpu for the financial year, with underlying income of 6.66 cpu, mainly from franked dividends. This is 3% lower than the previous year's 6.85 cpu underlying distribution.

The lower underlying income was mainly because the fund has reduced its holding in some companies that reported higher dividends. The funds raised from reducing those holdings have been invested in companies we expect to report higher and more sustainable earnings and dividends in future.

The concessional capital gains portion of the annual distribution was high this year, at 3.94 cpu. This income component has favourable tax treatment. Concessional capital gains were realised during the year due to:

- normal buying and selling in an environment of extremely strong share prices, and
- a change in managers, which resulted in more stock being sold than usual.

For more information about the distribution of MLC IncomeBuilder please refer to the MLC IncomeBuilder™ annual distribution commentary, which will be available on mlc.com.au and mlcinvestmenttrust.com.au in the week of 8 July.

MLC Australian Share Index Fund

The fund's distribution this year was 5.11 cpu. This was a new fund in FY2012 and its distribution for that year was 1.77 cpu, as it only distributed in the March and June quarters. Most of this year's distribution consisted of fully franked dividends.

Global share funds

MLC Global Share Fund

The fund's FY 2013 distribution decreased from 0.69 cpu last year to 0.46 this year due to the factors affecting global shares outlined on page 4. Most of the realised capital gains were offset against capital losses carried forward. The small portion of realised capital gains distributed were concessional capital gains which have favourable tax treatment.

MLC Hedged Global Share Fund (Classes A and B)

The distribution for MLC Hedged Global Share Fund was:

- Class A – 0.06 cpu for FY2013, compared to 0.01 cpu for FY2012, and
- Class B – 0.06 cpu for FY2013, compared to 0.01 cpu for FY2012.

The distribution was small due to the factors affecting global shares outlined on page 4. Most of the realised capital gains were offset against capital losses carried forward. The small amount of realised capital gains distributed were concessional capital gains which have favourable tax treatment.

MLC Global Share Value Style Fund

The fund's distribution of 1.05 cpu was small, and almost the same as last year's distribution of 1.04 cpu. Foreign income was lower than FY2012 because the fund's global shares exposure is not hedged to the AUD. However, the decrease in foreign income was offset by an increase in concessional capital gains, which have favourable tax treatement.

MLC Global Share Growth Style Fund

The fund's distribution of 0.23 cpu was small, though slightly higher than last year's distribution of 0.20 cpu. Capital gains were offset against capital losses carried forward.

MLC Platinum Global Fund

This year the fund paid no distribution this year (last year its distribution was 0.84 cpu). The fund generated substantial capital gains in FY2013, which were offset against capital losses carried forward.

Property securities

MLC Property Securities Fund
The distribution of 1.65 cpu was lower than last year's distribution of 2.09 cpu due to the factors affecting Australian property securites outlined on page 4. Most of the distribution consisted of tax free income, tax deferred income and concessional capital gains.

MLC Global Property Fund (Classes A and B)
The distribution for MLC Global Property Fund was:

- Class A – 0.75 cpu for FY2013, compared to 0.11 for FY2012, and
- Class B – 0.09 cpu for FY2013, compared to 0.13 for FY2012.

Both Class A and B were affected by the factors affecting global property securities outlined on page 4. In addition, Class A's income was higher than FY2012 due to an increase in currency gains from the AUD hedge strategy. However, Class B's carried forward losses reduced its income. All of Class B's income distribution consisted of tax deferred income and concessional capital gains.

Fixed income

MLC Diversified Debt Fund (Classes A and B)
The distribution for the MLC Diversified Debt Fund was:

- Class A – 4.54 cpu for FY2013, compared to 4.66 cpu for FY2012, and
- Class B – 3.37 cpu for FY2013, compared to 3.72 cpu for FY2012.

The main reason the distribution was slightly lower was due to the factors affecting longer term bonds outlined on page 4.

4. Frequently asked questions

Q. How is the level of distributions determined?

A. 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.

Q. If share prices rose in FY2013, why didn't distributions for share funds increase?

A. The share prices of the fund's investments influence the unit price of the fund, but not the distributions paid. The fund's distribution depends on the income from the fund's investments (see the question above).

Q. How do prior foreign losses impact future distributions?

A. In 2009, there was a change in the tax treatment of foreign losses (such as currency losses). Until then, a fund could only offset losses on foreign hedging contracts against foreign hedging contract gains. This meant many of the global funds had accumulated substantial foreign losses.

The change in the tax rules allows a fund to offset foreign losses against any income. However, to deal with the foreign losses accumulated before 1 June 2009, the tax rules permit a fund to offset a maximum of only 20% of those losses each year for up to five years.

As a result, some of the foreign losses incurred before 1 June 2009 are still being carried forward and will continue to offset gains over the next years. This may reduce distributions from funds that have hedged global exposures.

Q. How does currency hedging help protect you from currency movements?

A. If you invest in funds that hold overseas assets, such as global shares, property or bonds, your income and capital are exposed to currency fluctuations. This can impact your return positively or negatively, depending on your exposure to various currencies and movements in their exchange rates.

If a fund has an AUD currency hedging strategy, it helps reduce the impact of currency movements on global exposures and smooth out the overall return on your investment. However, the income and growth components of the overall return, particularly for share and property investments, can still be quite volatile.

When MLC hedges exposure to global investments, our intention is to remove most of the effect of currency losses and gains from your global exposures. That way, the total return you receive depends on the performance of the underlying investment – not the movement in value of the AUD.

Q. How does hedging impact income distributions?

A. Currency hedging can help smooth the impact of foreign currency fluctuations on an investor’s total return. The length of MLC’s hedging contracts varies, but is typically one month. Any hedging gains or losses the fund realises when the hedging contract expires impact the income distributions for investors. Hedging gains are treated as income, while hedging losses are offset against other sources of income such as interest, dividends and hedging gains.

Important information