MLC Investments

MLC Wholesale

MLC MasterKey Investment Service Fundamentals

Annual Distributions – June 2010

The following table outlines the cents per unit (cpu) distributions paid for the June 2010 quarter and for the full financial year for each of the MLC Wholesale funds.

For a breakdown of the taxation components of the distribution for the 2009/10 year, please refer to the MLC performance and commentary section of mlc.com.au or mlcinvestmenttrust.com.au. The components will also be included in your taxation statements.

Fund	June 2010 Quarter cpu	2009/10 cpu	2008/9 cpu (yield)	2007/8 cpu (yield)	2006/7 cpu (yield)
MLC Horizon 1 – Bond Portfolio	**2.65**	**4.14**	5.89 (6.1%)	5.72 (5.9%)	5.96 (6.0%)
MLC Horizon 2 – Income Portfolio	**2.71**	**4.35**	5.50 (5.7%)	6.53 (6.0%)	6.23 (6.1%)
MLC Horizon 3 – Conservative Growth Portfolio	**3.76**	**4.81**	5.23 (5.3%)	8.67 (7.6%)	8.33 (7.9%)
MLC Horizon 4 – Balanced Portfolio	**3.33**	**4.16**	5.32 (5.2%)	11.73 (9.5%)	10.52 (9.5%)
MLC Horizon 5 – Growth Portfolio	**2.69**	**3.41**	5.36 (5.1%)	13.22 (10.0%)	11.08 (9.7%)
MLC Horizon 6 – Share Portfolio	**3.63**	**3.63**	4.59 (4.9%)	11.59 (9.4%)	10.13 (9.1%)
MLC Horizon 7 – Accelerated Growth Portfolio	**5.45**	**5.45**	5.05 (4.4%)	14.93 (9.0%)	17.60 (12.1%)
MLC Long-Term Absolute Return Portfolio Class A	**7.66**	**7.66**	2.13 (2.5%)	12.21 (12.0%)	8.07 (8.2%)
MLC Long-Term Absolute Return Portfolio Class B	**6.78**	**6.78**	1.33 (1.5%)	10.90 (10.7%)	7.03 (7.2%)
MLC Australian Share Fund	**1.15**	**2.69**	4.76 (5.0%)	15.99 (11.7%)	22.43 (18.4%)
MLC Australian Share Value Style Fund	**1.13**	**2.90**	6.75 (7.4%)	11.58 (8.9%)	14.10 (13.3%)
MLC Australian Share Growth Style Fund	**1.27**	**2.62**	2.14 (2.1%)	7.60 (5.8%)	19.22 (16.1%)
MLC IncomeBuilder™	**2.05**	**5.77**	7.17 (4.9%)	13.41 (5.8%)	15.45 (8.6%)
MLC Global Share Fund	**0.66**	**0.66**	0.64 (0.9%)	1.19 (1.3%)	2.57 (3.0%)
MLC Hedged Global Share Fund Class A	**9.53**	**9.53**	0.00 (0.0%)	7.22 (7.5%)	5.23 (5.1%)

MLC Hedged Global Share Fund Class B	**8.58**	**8.58**	0.00 (0.0%)	6.95 (6.9%)	- (-)
MLC Global Share Value Style Fund	**0.50**	**0.50**	0.10 (0.1%)	3.77 (3.0%)	12.09 (10.2%)
MLC Global Share Growth Style Fund	**0.07**	**0.07**	0.00 (0.0%)	0.32 (0.3%)	3.70 (3.4%)
MLC Property Securities Fund	**1.33**	**2.74**	3.22 (4.2%)	7.23 (6.5%)	28.58 (28.2%)
MLC Global Property Securities Fund Class A	**5.58**	**5.58**	0.52 (0.7%)	8.01 (9.7%)	10.04 (10.1%)
MLC Global Property Securities Fund Class B	**5.30**	**5.30**	0.59 (0.7%)	8.54 (8.6%)	- (-)
MLC Diversified Debt Fund Class A	**3.60**	**4.81**	7.51 (7.8%)	4.18[1] (-)	- (-)
MLC Diversified Debt Fund Class B	**3.32**	**3.95**	6.81[1] (-)	4.29[1] (-)	- (-)
MLC Platinum Global Fund	**4.50**	**4.50**	9.40 (13.6%)	9.95 (10.3%)	14.13 (14.2%)
MLC-Capital International Global Share Fund	**0.43**	**0.43**	1.31 (2.1%)	6.35 (7.7%)	0.90 (1.2%)

Individual Fund Commentaries

MLC Horizon Series Portfolios (MLC Horizon 1 – 7)

The MLC Horizon Series are a complete range of multi-manager, multi-asset class portfolios tailored to meet the needs of investors with different return expectations, time-frames and tolerance for volatility. The distributions for these portfolios are largely based on the exposure to and distributions from the underlying asset classes[2]. The allocations to the asset classes are different for each of the MLC Horizon Series Portfolios.

As global shares, Australian shares and listed property are still suffering from depressed profits and the desire of businesses to protect capital, most of the MLC Horizon Portfolios experienced reduced distributions for the year, compared to FY2009. Increasing bond yields in Australia coupled with low interest rates globally also had an adverse impact on the distributions. Even though there has been a recovery in sharemarkets, they are still trading well below peak levels so capital gains were off-set against losses resulting in no assessable capital gains being distributed this year. The strengthening of the Australian dollar (AUD) provided income to funds with a AUD hedged global exposure as net income from gains on hedging contracts were passed through to distributions.[3]

[1] Partial year
[2] Gains realised on the sale of units from underlying trusts may also contribute to distributions.
[3] After off-setting quarantined currency losses from prior years.

MLC Horizon 1 – Bond Portfolio

The MLC Horizon 1 – Bond Portfolio delivered a distribution of 4.14 cpu, compared to 5.89 cpu for FY2009. The 2010 distribution comprised interest earned on the portfolio's investments in cash, Australian and global bonds. There were some offsetting effects within the portfolio however the main driver of reduced distributions when compared to last year was due to receiving less domestic income:

Helped

- Increasing interest rates in Australia led to an increase in income from the portfolio's investments in cash (approximately 30% of the portfolio)
- Falling yields on corporate investment grade bonds and high yield bonds increased income when compared to last year.
- Gains from AUD hedging contracts on global bond exposures were helped by the strengthening in the AUD over the year.

Hurt

- Increasing interest rates in Australia hurt the market prices of Australian bonds. In bond markets, when yields (interest rates) are rising, prices fall. This resulted in lower domestic income flowing through to distributions when compared to last year.
- Lower interest rates globally kept global bond income low overall.

MLC Horizon 2 – Income Portfolio

The MLC Horizon 2 – Income Portfolio delivered a 2010 distribution of 4.35 cpu, compared to 5.50 cpu for FY2009. The 2010 distribution comprised interest earned on the portfolio's investments in Australian and global bonds. There were some offsetting effects within the portfolio however the main drivers of reduced distributions this year were reduced income from domestic shares and domestic bonds:

Helped

- Increasing interest rates in Australia led to an increase in income from the portfolio's investments in cash (approximately 10% of the portfolio)
- Falling yields on corporate investment grade bonds and high yield bonds increased income when compared to last year.
- Gains from AUD hedging contracts on global bond, global shares and global property exposures (29% of portfolio) were helped by the strengthening in the AUD over the year.
- Income from Australian property securities.

Hurt

- Dividend income from Australian shares only marginally assisted distributions due to companies maintaining more conservative dividend payout ratios in the current economic environment.
- Increasing interest rates in Australia hurt the market prices of Australian bonds. In bond markets, when yields (interest rates) are rising, prices fall. This resulted in lower domestic income flowing through to distributions when compared to last year.
- Lower interest rates globally kept global bond income low overall.

MLC Horizon 3 – Conservative Growth Portfolio

The MLC Horizon 3 –Conservative Growth Portfolio delivered a 2010 distribution of 4.81 cpu, compared to 5.23 cpu for FY2009. The 2010 distribution comprised interest earned on the portfolio's investments in bonds (approximately 50% of the portfolio) and dividends from shares. There were some offsetting effects within the portfolio however the main drivers of reduced distributions this year were reduced income from domestic shares and non-assessable concessional capital gains:

Helped

- Falling yields on corporate investment grade bonds and high yield bonds increased income when compared to last year.
- Gains from AUD hedging contracts on global bond, global shares and global property exposures were helped by the strengthening in the AUD over the year.

Hurt

- Distributions of dividends from allocations to shares also continue to be reduced due to companies maintaining conservative dividend payout ratios through subdued profits, economic uncertainty and the need to preserve capital.
- Increasing interest rates domestically and low cash rates globally contributed to lower income being distributed from your bond exposures.

MLC Horizon 4 – Balanced Portfolio

The MLC Horizon 4 – Balanced Portfolio delivered a 2010 distribution of 4.16 cpu, compared to 5.32 cpu for FY2009. The 2010 distribution comprised interest earned on the portfolio's investments in bonds (approximately 30% of the portfolio) and dividends from shares (approximately 70% of the portfolio). There were some offsetting effects within the portfolio however the main drivers of reduced distributions this year were reduced income from domestic shares, domestic bonds and non assessable concessional capital gains:

Helped

- Falling yields on corporate investment grade bonds and high yield bonds increased income when compared to last year.
- Gains from AUD hedging contracts on global bond, global shares and global property exposures were helped by the strengthening in the AUD over the year.

Hurt

- Increasing interest rates domestically and low cash rates globally contributed to lower income being distributed from your bond exposures.
- Distributions of dividends from allocations to shares also continued to be reduced due to companies maintaining conservative dividend payout ratios through subdued profits, economic uncertainty and the need to preserve capital. Many domestic companies began reducing dividends in the second half of 2008 so the portfolio last year received a greater amount of income when compared to this year.

MLC Horizon 5 – Growth Portfolio

The distribution for MLC Horizon 5 –Growth Portfolio continued to deliver low distributions this year reducing from 5.36 cpu in FY2009 to 3.41cpu in FY2010. Reduced distributions this year were due to high exposure to shares (approximately 85% of the portfolio) and reduced income from bonds. There were some offsetting effects within the portfolio, some helped the distribution and others hurt:

Helped

- Gains from AUD hedging contracts on global bond, global shares and global property exposures were helped by the strengthening in the AUD over the year.

Hurt

- Increasing interest rates domestically and low cash rates globally contributed to lower income being distributed from your bond exposures.
- Distributions of dividends from allocations to shares also continued to be reduced due to companies maintaining conservative dividend payout ratios through subdued profits, economic uncertainty and the need to preserve capital. Many domestic companies began reducing dividends in the second half of 2008 so the portfolio in 2009 received a greater amount of income when compared to this year.

MLC Horizon 6 – Share Portfolio

The distribution for the MLC Horizon 6 – Share Portfolio continued to deliver low distributions this year reducing from 4.59 cpu to 3.63 cpu in FY2010 as a result of the portfolio's exposure to Australian and global shares. Distributions from allocations to shares continued to be reduced due to companies maintaining conservative dividend payout ratios through subdued profits, economic uncertainty and the need to preserve capital. Many domestic companies began reducing dividends in the second half of 2008 so the portfolio in 2009 received a greater amount of income when compared to this year. Distributions were helped by gains from AUD hedging contracts on global shares exposures which benefited from the strengthening in the AUD over the year.

MLC Horizon 7 – Accelerated Growth Portfolio

The distribution for the MLC Horizon 7 – Accelerated Growth Portfolio continued to deliver low distributions this year slightly increasing from 5.05 cpu to 5.45 cpu in FY2010 as a result of the portfolios 130% exposure to Australian and global shares. Distributions of dividends from allocations to shares continued to be reduced due to companies maintaining conservative dividend payout ratios through subdued profits, economic uncertainty and the need to preserve capital. Many domestic companies began reducing dividends in the second half of 2008 so the portfolio in 2009 received a greater amount of income when compared to this year. Distributions slightly increased this year due to gains from AUD hedging contracts on global shares exposures which benefited from the strengthening in the AUD over the year.

MLC Long-Term Absolute Return Portfolio (Class A & B)

The MLC Long Term Absolute Return portfolio (class A & B) delivered a 2010 distribution of 7.66 cpu and 6.78 cpu compared to 2.13 cpu and 1.33 cpu in FY2009 respectively. The majority of the 2010 distribution comprised of income from realised currency gains from international holdings. Dividends and interest earned on the portfolios' diversified exposure to bonds, shares and multi-asset class strategies also marginally contributed to the distribution. Dividends from shares continue to be low globally as a result of depressed earnings and unease in global markets.

MLC Investments

MLC Wholesale
MLC MasterKey Investment Service Fundamentals

Australian Shares

MLC Australian Share Fund

The FY2010 distribution remained low this year, falling from 4.76 cpu to 2.69 cpu in 2010 due to companies maintaining a conservative approach to dividend payments in response to economic uncertainty and the subsequent desire to preserve capital. Some companies have also chosen to retain capital to fund intended acquisitions. The decision by many companies to reduce dividends emerged in the second half of 2008 so the portfolio last year received a greater amount of income when compared to this year. The top four banks are indicative of the decision by many companies to reduce dividends. Their dividends this financial year were on average 20% lower compared to the previous year. However, the relatively low portfolio turnover by the appointed investment managers, coupled with reduced market values relative to prior year highs, resulted in no distributed assessable capital gains this year. The Fund's franking level was 91% this year.

MLC Australian Share Value Style Fund

The Fund's FY2010 distribution is lower than last year, due to reduced company dividends. Many companies began reducing dividends in the second half of 2008 so the fund last year received a greater amount of income when compared to this year. The majority of this year's distribution comprised fully franked dividends and consessional capital gains (non-taxed).

MLC Australian Share Growth Style Fund

The Fund's FY2010 distribution continues to be low. Growth style funds tend to invest in stocks with lower dividend yields as these companies tend to prefer to retain their profits for expansion. The majority of this year's distribution comprised fully-franked dividends.

MLC IncomeBuilder™

For the financial year ended 30 June 2010 the fund produced a distribution of 5.77 cpu. The underlying income of the distribution is 5.73 cpu. This is 20% lower than the previous year's underlying income distribution. As we discussed last year, this was to be expected as companies generally have chosen to delay increasing dividends until there is more certainty on the economic outlook and stability of the global financial system.
The capital gains portion of this year's annual distribution was almost negligible (0.04 cpu) and was made up entirely of concessional capital gains. Capital gains realised as a result of managers' stock selection decisions (including the sale of Lion Nathan shares into a takeover offer for the company) were managed very closely with all assessable capital gains offset by capital losses during the period. The franking level of the Fund continues to be high (94% this year compared to 89% last year) due to the low level of capital gains in the portfolio.

For further details of the distribution of MLC IncomeBuilder™ please refer to the MLC Wholesale IncomeBuilder™ Annual distribution commentary.

Global Shares

MLC Global Share Fund:
Due to a strong Australian dollar and reduced dividends globally from depressed earnings, there was a small distribution of 0.66 cpu for the year. When the Australian dollar increases in value, the value of overseas income decreases when it is converted back into Australian dollars. This also contributed to the low dividends received by the fund. Any realised capital gains were more than offset by realised capital losses throughout the year.

MLC Hedged Global Share Fund (Class A & B):
The positive impact on hedging contracts from the strengthening in the Australian dollar provided a large distribution for both Class A & B funds of 9.53 cpu and 8.58 cpu respectively this year. Last year, distributions were impacted by the dramatic fall in the Australian dollar in 2008 that created losses on the hedging contracts. Dividends received from global companies continued to be depressed so were not a large contributor to distributions this year. It is worth noting that the total value of the investment remains unchanged as losses or gains from hedging are offset by gains or losses in overseas asset values. For further information on the impact of hedging please refer to the attached Q&A.

MLC Global Share Value Style Fund
Due to a strong Australian dollar and reduced dividends globally from depressed earnings, there was only a small distribution of 0.50 cpu for the year. When the Australian dollar increases in value, the value of overseas income decreases when it is converted back into Australian dollars. This also contributed to the low dividends received by the fund. Any realised capital gains were more than offset by realised capital losses throughout the year.

MLC Global Share Growth Style Fund
Due to a strong Australian dollar and reduced dividends globally from depressed earnings, there was only a small distribution of 0.07 cpu for the year. When the Australian dollar increases in value, the value of overseas income decreases when it is converted back into Australian dollars. This also contributed to the low dividends received by the fund. Any realised capital gains were more than offset by realised capital losses throughout the year.

MLC-Platinum Global Fund
Platinum Asset Management has continued to generate strong peer relative returns over the year, distributing a reasonable amount of income in tough market conditions of 4.50 cpu. Platinum continued to take advantage of volatile currencies with the main contributor to income paid derived from favorable gains on futures positions.

MLC-Capital International Global Share Fund
This year's distribution is predominantly foreign income. Due to a strong Australian dollar and reduced dividends globally from depressed earnings, there was only a small distribution of 0.43 cpu to distribute this year.

Property Securities / REITs (Real Estate Investment Trusts)

MLC Property Securities Fund
This year's distribution continued to be impacted by market uncertainty, subdued earnings and the need to preserve capital. Many REITs began reducing their dividend income in the second half of 2008 so the fund still received a greater amount of income last year. The fund has large holding in stocks such as Westfield Group, Stockland Trust and Mirvac Group which all had dividend reductions of 12%, 31% & 62% respectively when compared to last year. The majority of the distribution represented tax deferred income.

MLC Global Property Securities Fund (Class A & B)
This year's distribution was positively impacted by the significant strengthening of the Australian dollar throughout the year. As the fund is 100% hedged to the Australian dollar, the majority of the distribution was comprised of income received from gains on the forward foreign exchange contracts.

Unlike A-REITs, some global REITS can retain earnings, which generally results in a lower dividend payout ratio, and lower income yields than the A-REIT sector. Even though the listed Global REIT market had a strong rebound in prices, many property trusts continue to be impacted by subdued earnings and the need to preserve capital. Income received from these property trusts was therefore minimal over the year.

For further information on hedging and the potential impact on future distributions please refer to the attached Q&A.

Debt Securities

MLC Diversified Debt Fund (Class A & B)
The Fund delivered a 2010 distribution of 4.81 cpu and 3.95 cpu for Class A and B respectively, compared to 7.51 cpu and 6.81 cpu for FY2009. Increasing interest rates in Australia throughout the year hurt the market prices of Australian bonds. This resulted in lower domestic income flowing through to distributions when compared to last year. Lower interest rates globally also kept global bond income low overall. The main contributor to the distribution this year was gains from AUD hedging contracts on global bond exposures which were helped by the strengthening in the AUD.

MLC Investments

MLC Wholesale
MLC MasterKey Investment Service Fundamentals

General Distribution Information

This Q&A may answer some of your questions about distributions for MLC MasterKey Investment Service and MLC MasterKey Unit Trust investment options and why they've been reduced this quarter.

Q. What are distributions dependent on?
A. Distributions are made up of income from the underlying investments held by the managed fund and paid to investors once fees are deducted. These investments could be shares, property, debt securities and/or cash. As such the distribution could include interest earned, franked and unfranked dividends, tax deferred income, rental income, and any realised capital gains (after offsetting any capital losses) made from selling investments that typically occur in the last quarter of the financial year. Currency can also impact income distributions on investments.

Q. Why do distributions continue to be low for many funds this year?
A. Distributions for investors dropped significantly in many funds during the global financial crisis and continue to be low because tough economic conditions are resulting in:

- lower company earnings. This means funds which invest in shares have received low levels of dividends so there's less to distribute to investors
- lower rates of interest on cash and bond investments, and
- a decline in the value of the Australian dollar in 2008. Funds that invest overseas and hedge currency exposure to the Australian dollar suffered large currency losses that year. Recent gains in the Australian dollar have helped to reduce these losses however due to tax rules limiting the amount of losses that can be paid-off each year, many funds that hedge currency continue to have significant currency losses which unfortunately will impact future distributions.

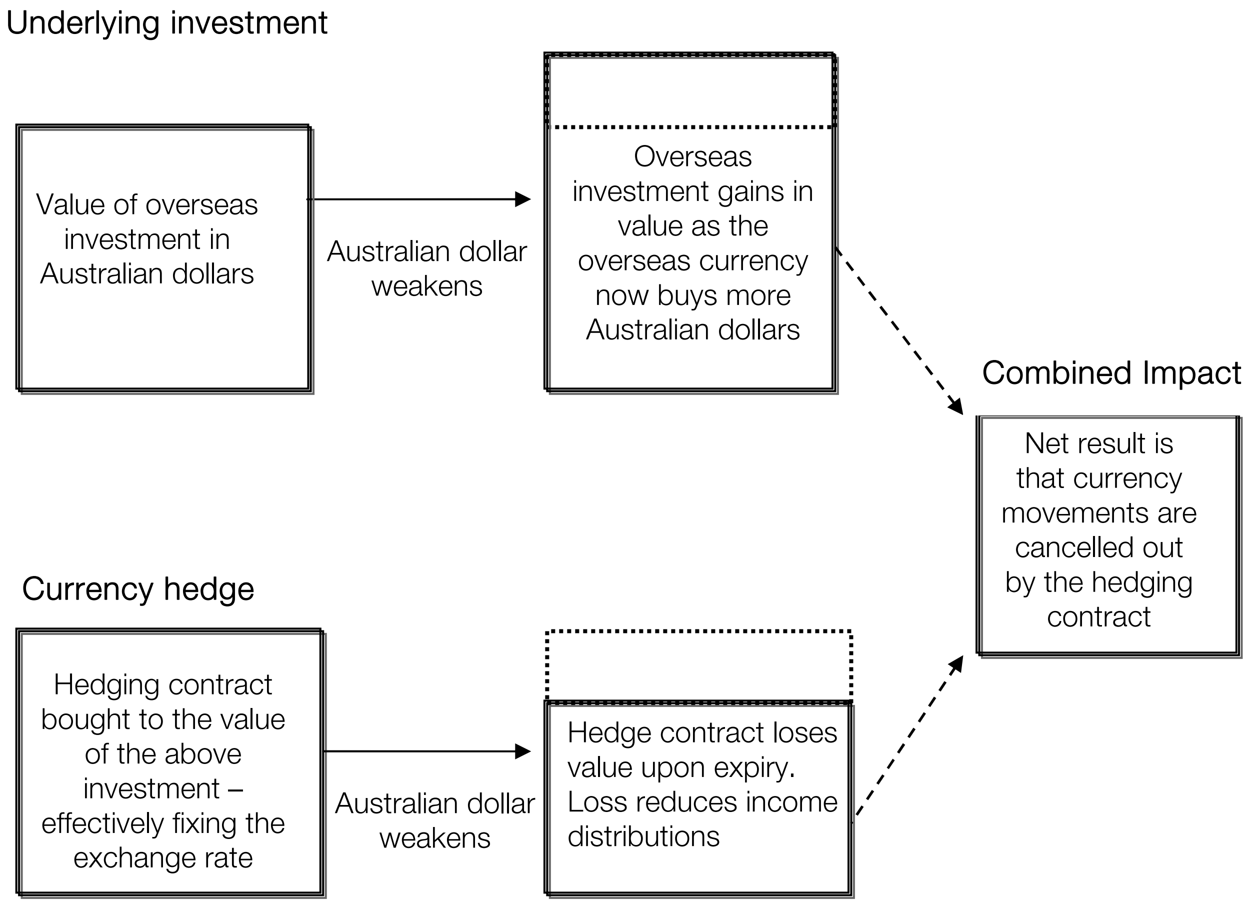
Q. Why are company dividend levels so low?
A. Lower company dividends could be a result of a number of factors including pressure on profit margins, poor sales and the need for companies to fund their businesses by retaining profits. Companies may choose not to pay dividends as it's cheaper for them to keep any profits, rather than raise money by borrowing. It's worth noting that even though share markets have rebounded significantly, company earnings are still lagging behind as the economy has not rebounded as strongly as share markets. This reduction in company earnings along with companies preserving their capital reflects the lower dividends passed through to investors.

Q. What about the recent market recovery?
A. The market has been improving since March 2009 with the Australian dollar strengthening against most major currencies. Because of this, funds with investments overseas that hedge currency exposure, such as hedged global shares, global property and global debt securities have made recent gains from Australian dollar hedging contracts. A strong Australian dollar also means that income from unhedged overseas investments is worth less when it's converted back into Australian dollars.

Overall however, most companies are still suffering from reduced earnings and are wary of the economic outlook, and therefore continue to preserve capital and maintain more conservative dividends payout ratios.

Q. How does currency hedging provide protection from currency movements?
A. If you invest in funds that own non-Australian securities such as global shares, listed property and bonds, you'll be exposed to the impact of currency fluctuations on both your income and capital. This can impact the return you receive, both positively and negatively, depending on what currency exposure you have. Funds that have a currency hedging strategy help manage the impact of currency movements on your global exposures to smooth out the overall return on your investment, which includes distributions and capital growth.

When MLC hedges exposure to global investments, the intent is to remove the effect of currency losses and gains from your global exposures so returns are based on the performance of the underlying investment only. The example below explains how the hedging contract largely removes the impact of currency when the Australian dollar depreciates or weakens in value.[4]



[4] In practice, the value of the hedging contract may differ slightly from the underlying investment value so the investment may not be 100% hedged at all times.

When the Australian dollar rises, as we've seen recently, the reverse occurs. The value of unhedged global assets held by Australian investors fall, but the value of the hedge contract rises. This increase in the hedge contract value compensates for the fall in value of the unhedged non-Australian assets.

The total return you receive is therefore only dependant on the performance of the underlying investments.

Q. How does currency hedging then impact income distributions?

A. Currency hedging can help smooth the impact of foreign currency fluctuations on an investor's total return. At MLC, the length of the hedging contract can vary and typically will last for one month. Any hedging gains or losses the fund realises when the hedging contract expires impact the income distributions for investors. Hedging gains or losses are treated as income and used to offset against other sources of income such as interest and dividends.

In 2008, we saw the Australian dollar falling quite dramatically through the year against major currencies. The Australian dollar fell sharply against the US dollar from highs above 98c to lows around 60c between July and October 2008, representing a decline in value of 40%. When the Australian dollar falls in value, the value of unhedged global assets owned by an Australian investor will increase in value. However, this also results in a loss on the sold hedge contract. Funds that used hedge contract to hedge the Australian dollar therefore suffered losses on these contracts during that period.

Recent gains in the Australian dollar have helped to reduce these losses however due to tax rules limiting the amount of losses that can be paid off each year, many funds that hedge currency are sitting on currency losses which unfortunately will impact future distributions to come.

Q. How will prior losses from hedging contract impact future distributions?

A. Unfortunately due to new tax changes in the treatment of foreign income that came into effect last year, losses that were obtained from hedging contracts in 2008 were not able to be fully paid back by reciprocating hedging contract gains that occurred this year. Only 20% of prior losses were able to be offset with gains this year due to the tax rules (rules stipulate that a maximum of 20% of foreign income losses occurring before 1 June 2009 can be paid back each year for up to 5 years). Excess gains on hedging contracts over the 20% were therefore forced to be paid out in the June quarter distribution rather than offset against prior losses. This means that foreign income losses will be carried forward into next year, adversely impacting distribution from funds that have hedged global exposures.

Q. How long will lower distributions last?

A. Coming out of the GFC, company earning continue to be subdued which therefore flows through to dividends. Increases to overall dividends will not likely increase again until the confidence in the global and domestic economy returns. A recovery to previous levels of distributions will take time as funds that have hedged currency exposure to the Australian dollar still have currency losses on those contracts carried over from last year.

MLC Investments

MLC Wholesale
MLC MasterKey Investment Service Fundamentals

Fund Performance Commentaries

Further information on the performance of each of the funds is available on the performance and commentary section of mlc.com.au.