MLC Wholesale funds

Annual distribution commentary, 2017 financial year

On Friday, 30 June 2017 the MLC Wholesale funds (Funds) made their last distribution for the 2017 financial year (FY2017), including those Funds that are offered through:

- MLC MasterKey Investment Service Fundamentals
- MLC Wrap
- Navigator platforms
- MLC MasterKey Investment Service (MKIS)[1], and
- external platforms.

Our analysis of the components of the distributions and key factors affecting the distributions is in the following:

1. Distributions for FY2017
2. Key factors affecting distributions in FY2017
3. Frequently asked questions

Appendix 1 summarises the full financial year (1 July to 30 June) distributions for the last eight years.

1. Distributions for FY2017

The table below sets out the cents per unit (cpu) distributions paid for the June 2017 quarter and for the full FY2017 (1 July 2016 to 30 June 2017). We've included commentary on the distribution and reasons for the differences between the FY2017 and FY2016 distributions. The distribution history for previous years is in Appendix 1.

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 MKIS.

For a breakdown of the taxation components of the distribution for the FY2017, please refer to the **MLC Wholesale Trusts – Distribution Tax Components for the Year Ending June 2017** available on **mlcinvestmenttrust.com.au**.

Section 2 has important background on the key factors impacting the distributions for FY2017 (eg the impact of economic growth, the stronger Australian dollar and carried forward capital losses). Please read section 2 in conjunction with the fund comments below.

More information on the performance of each fund is available on the Fund Profile Tool on **mlcinvestmenttrust.com.au** (for direct investments in a fund) and on **mlc.com.au** (for funds available through the MLC MKIS and MLC MasterKey Investment Service Fundamentals). The performance information is updated monthly.

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

MLC Wholesale funds (APIR code)	Quarter cpu	Full year cpu (distribution yield)[2]			Comments
	June 2017	2016/17	2015/16	2014/15	FY2017 distributions compared to FY2016
MLC Horizon 1 – Bond Portfolio (MLC0669AU)	2.16	3.15 (3.1%)	2.59 (2.5%)	2.14 (2.1%)	The fund had a higher distribution compared to FY2016 due to increased income from fixed income securities for the reasons outlined in 'Fixed income' on page 10. The fund's distribution yield is slightly higher than recent years.
MLC Horizon 2 – Income Portfolio (MLC0670AU)	2.56	3.55 (3.5%)	6.83 (6.4%)	3.13 (3.0%)	The lower distribution is largely due to a decrease in realised capital gains which were unusually high in the FY2016 for the reasons outlined in 'MLC Horizon 2 to 7 portfolios and global share funds' on page 9. More than two thirds of the distribution this year comprised dividends, interest, foreign and Real Estate Investment Trust (REIT) income. Income from these sources was in line with FY2016. The remainder of the distribution is capital gains. Most of the capital gains are concessional capital gains and are therefore not tax-assessable for individuals and superannuation fund investors. Please refer to section 2 for more details on the factors that affected the distribution this year.
MLC Horizon 3 – Conservative Growth Portfolio (MLC0398AU)	2.65	3.43 (3.3%)	6.71 (6.0%)	3.65 (3.5%)	The lower distribution is largely due to a decrease in realised capital gains which were unusually high in the FY2016 for the reasons outlined in 'MLC Horizon 2 to 7 portfolios and global share funds' on page 9. Two thirds of the distribution this year comprised dividends, interest, foreign and Real Estate Investment Trust (REIT) income. Income from these sources was slightly lower than FY2016 due to a decrease in Australian dividend and interest income. The remaining third of the distribution is capital gains. All of the capital gains are concessional capital gains and are therefore not tax-assessable for individuals and superannuation fund investors. Please refer to section 2 for more details on the factors that affected the distribution this year. At the end of FY2017, the fund still has carried forward capital losses. The effect on distributions is outlined on page 10.
MLC Horizon 4 – Balanced Portfolio (MLC0260AU)	3.09	3.88 (3.7%)	7.56 (6.8%)	4.69 (4.5%)	The lower distribution is largely due to a decrease in realised capital gains which were unusually high in the FY2016 for the reasons outlined in 'MLC Horizon 2 to 7 portfolios and global share funds' on page 9. Half of the distribution this year comprised

[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 **mlcinvestmenttrust.com.au**

MLC Wholesale funds (APIR code)	Quarter cpu	Full year cpu (distribution yield)[2]			Comments
	June 2017	2016/17	2015/16	2014/15	FY2017 distributions compared to FY2016
					dividends, interest, foreign and Real Estate Investment Trust (REIT) income. Income from these sources was lower than FY2016. The other half of the distribution is capital gains. All of the capital gains are concessional capital gains and are therefore not tax-assessable for individuals and superannuation fund investors. Please refer to section 2 for more details on the factors that affected the distribution this year. At the end of FY2017, the fund still has carried forward capital losses. The effect on distributions is outlined on page 10.
MLC Horizon 5 – Growth Portfolio (MLC0265AU)	3.27	4.02 (3.9%)	8.94 (7.9%)	4.58 (4.4%)	The lower distribution is largely due to a decrease in realised capital gains which were unusually high in the FY2016 for the reasons outlined in 'MLC Horizon 2 to 7 portfolios and global share funds' on page 9. Half of the distribution this year comprised dividends, interest, foreign and Real Estate Investment Trust (REIT) income. Income from these sources was lower than FY2016. The other half of the distribution is capital gains. All of the capital gains are concessional capital gains and are therefore not tax-assessable for individuals and superannuation fund investors. Please refer to section 2 for more details on the factors that affected the distribution this year. At the end of FY2017, the fund still has carried forward capital losses. The effect on distributions is outlined on page 10.
MLC Horizon 6 – Share Portfolio (MLC0397AU)	4.55	4.55 (4.6%)	9.71 (8.8%)	4.35 (4.3%)	The lower distribution is mostly due to a decrease in capital gains which were unusually high in the FY2016 for the reasons outlined in 'MLC Horizon 2 to 7 portfolios and global share funds' on page 9. More than a third of the distribution this year comprised dividends, foreign and Real Estate Investment Trust (REIT) income. Income from these sources was lower than FY2016. The remainder of the distribution is capital gains. All of the capital gains are concessional capital gains and are therefore not tax-assessable for individuals and superannuation fund investors. Please refer to section 2 for more details on the factors that affected the distribution this year. At the end of FY2017, the fund still has carried forward capital losses. The effect on distributions is outlined on page 10.

MLC Wholesale funds

Annual distribution commentary, 2017 financial year

MLC Wholesale funds (APIR code)	Quarter cpu	Full year cpu (distribution yield)[2]			Comments
	June 2017	2016/17	2015/16	2014/15	FY2017 distributions compared to FY2016
MLC Horizon 7 – Accelerated Growth Portfolio (MLC0449AU)	5.45	5.45 (4.6%)	14.14 (10.4%)	4.67 (3.9%)	The lower distribution is mostly due to a decrease in capital gains which were unusually high in the FY2016 for the reasons outlined in 'MLC Horizon 2 to 7 portfolios and global share funds' on page 9. Most of the fund's distribution is usually capital gains because income from share and property investments is offset against gearing costs (such as interest). All of the capital gains are concessional capital gains and are therefore not tax-assessable for individuals and superannuation fund investors. A quarter of the distribution this year comprised dividends, foreign and Real Estate Investment Trust (REIT) income. Income from these sources was lower than FY2016 due to a decrease in Australian dividend and foreign income. Please refer to section 2 for more details on the factors that affected the distribution this year. At the end of FY2017, the fund still has carried forward capital losses. The effect on distributions is outlined on page 10.
MLC Inflation Plus – Conservative Portfolio (MLC0921AU)	2.21	2.21 (2.1%)	2.99 (2.8%)	5.06 (5.0%)	The lower distribution is mostly due to a decrease in realised capital gains. The distribution largely comprised interest income, dividends and foreign income. Income from these sources was similar to FY2016. Interest income is a large part of the distribution because the fund has been defensively positioned due to our concerns about risks in the market environment. The remainder of the distribution is capital gains. All of the capital gains are concessional capital gains and are therefore not tax-assessable for individuals and superannuation fund investors. Please refer to section 2 for more details on the factors that affected the distribution this year. At the end of FY2017, the fund has carried forward capital losses. The effect on distributions is outlined on page 10.
MLC Inflation Plus – Moderate Portfolio (MLC0920AU)	2.94	2.94 (2.8%)	3.75 (3.5%)	6.31 (6.2%)	The lower distribution is mostly due to a decrease in foreign income and realised capital gains. Similar to FY2016, more than half of the distribution comprised interest income, dividends, and foreign income. Interest income is a large part of the distribution because the fund has been defensively positioned due to our concerns about risks in the market environment. The remainder of the distribution is capital gains. Almost two thirds of the capital gains are concessional, which are not tax-assessable for individuals and superannuation fund investors. Please refer to section 2 for more details on the factors that affected the distribution this year.

MLC Wholesale funds (APIR code)	Quarter cpu	Full year cpu (distribution yield)[2]			Comments
	June 2017	2016/17	2015/16	2014/15	FY2017 distributions compared to FY2016
MLC Inflation Plus – Assertive Portfolio Class A (MLC0667AU)	4.71	4.71 (5.3%)	8.12 (8.4%)	11.68 (12.5%)	The lower distribution is mostly due to a decrease in foreign income and realised capital gains. Similar to FY2016, less than a third of the distribution comprised interest income, dividends and foreign income. While most of the distribution is capital gains almost all of the capital gains are concessional, which are not tax-assessable for individuals and superannuation fund investors. The fund's annual distribution tends to fluctuate from year to year largely as a result of changes in realised capital gains and losses. Please refer to section 2 for more details on the factors that affected the distribution this year.
MLC Inflation Plus – Assertive Portfolio Class B (MLC0668AU)	3.49	3.49 (3.9%)	6.84 (7.0%)	10.18 (10.9%)	The lower distribution is mostly due to a decrease in foreign income and realised capital gains. Almost all of the distribution comprises capital gains this year. Almost all of the capital gains are concessional which are not tax-assessable for individuals and superannuation fund investors. The fund's annual distribution tends to fluctuate from year to year largely as a result of changes in realised capital gains and losses. Please refer to section 2 for more details on the factors that affected the distribution this year.
MLC Australian Share Fund (MLC0262AU)	9.63	11.57 (12.2%)	6.14 (6.2%)	5.90 (6.0%)	The fund's significantly higher distribution is due to an increase in realised capital gains. More than half of the realised capital gains are concessional capital gains and are therefore not tax-assessable for individuals and superannuation fund investors. The realised capital gains are much higher than FY2016 due to a number of factors, including: • The fund has distributed assessable capital gains for the first time since the GFC period of 2008-9. Carried forward capital losses incurred during the GFC period have now been offset against capital gains generated by strong returns post the GFC. As a result the fund has returned to a net tax-assessable capital gain position this year. • The fund is managed by four high quality active investment managers: Alphinity, Antares, Bennelong and Northcape. Where the managers believe share values have reached their full potential, we expect the managers to sell those shares and seek better long-term risk and return opportunities in other Australian shares. In this way our managers seek to grow investor's capital over the long term. However, these portfolio changes can result in the realisation of capital gains. These gains typically feature in distributions after periods of very strong market performance - the fund has generated a strong return of 12% pa (after

MLC Wholesale funds (APIR code)	Quarter cpu	Full year cpu (distribution yield)[2]			Comments
	June 2017	2016/17	2015/16	2014/15	FY2017 distributions compared to FY2016
					fees) over the past 5 years to 30 June 2017[3]. Please refer to page 9 for the other factors that affected Australian shares this year, outlined in 'How economic growth has affected funds with exposure to shares'.
MLC IncomeBuilder (MLC0264AU)	8.47	13.43 (8.2%)	11.80 (6.4%)	18.98 (10.4%)	The fund's total distribution increased to 13.43 cpu, compared to 11.80 cpu for FY2016. This was mostly due to an increase in capital gains. Capital gains in FY2017 were higher largely due to stronger share market performance. The fund's underlying income, comprising dividend and other income but excluding capital gains, decreased by 4% to 7.56 cpu when compared with 7.87 cpu in FY2016. More than half of the underlying income is franked dividends which provide investors with a tax-efficient income stream. The distribution for FY2017 has been affected by company dividends remaining at the same levels or lower for the reasons outlined in 'How economic growth has affected funds with exposure to shares' on page 9. The capital gains portion of the annual distribution remained fairly high this year, at 5.87 cpu. This compares to 3.93 cpu in FY2016. More than half of the capital gains are concessional capital gains and are therefore not tax-assessable for individuals and superannuation fund investors. For more information about the distribution of MLC IncomeBuilder please refer to the MLC IncomeBuilder annual distribution commentary, which will be available on **mlcinvestmenttrust.com.au** by COB 7 July.
MLC Australian Share Index Fund (MLC0893AU)	5.59	9.19 (7.4%)	5.00 (3.9%)	5.29 (4.2%)	The distribution paid to investors was larger than recent years due to a number of factors, including: • strong investment performance over time (up 11% pa (after fees) over the past 5 years to 30 June 2017[3], and • an underlying fund distributed assessable capital gains for the first time since FY2014. Carried forward capital losses have now been offset against capital gains generated by strong returns. As a result the fund has returned to a net tax-assessable capital gain position this year. Two thirds of the distribution is dividend, interest, foreign and Real Estate Investment Trust (REIT) income.

[3] Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market.

MLC Wholesale funds

Annual distribution commentary, 2017 financial year

MLC Wholesale funds (APIR code)	Quarter cpu	Full year cpu (distribution yield)[2]			Comments
	June 2017	2016/17	2015/16	2014/15	FY2017 distributions compared to FY2016
					The remaining third of the distribution was capital gains. More than half of the capital gains were concessional capital gains, which are not tax-assessable for individuals and superannuation fund investors. Please refer to page 9 for the other factors that affected Australian shares this year, outlined in 'How economic growth has affected funds with exposure to shares'.
MLC Global Share Fund (MLC0261AU)	3.85	3.85 (4.3%)	15.99 (14.8%)	2.15 (2.4%)	The large decrease in distribution compared to FY2016 was due to a decrease in capital gains for the reasons outlined in 'MLC Horizon 2 to 7 portfolios and global share funds' on page 9. More than three quarters of the distribution comprises capital gains. All of the capital gains are concessional capital gains and are therefore not tax-assessable for individuals and superannuation fund investors. Please refer to page 9 for the other factors that affected global shares this year, outlined in 'How economic growth has affected funds with exposure to shares'. At the end of FY2017, the fund still has carried forward capital losses. The effect on distributions is outlined on page 10.
MLC Hedged Global Share Fund Class A (MLC0787AU)	1.73	1.73 (2.2%)	5.15 (6.0%)	0.89 (1.1%)	The decrease in distribution compared to FY2016 was due to a decrease in capital gains for the reasons outlined in 'MLC Horizon 2 to 7 portfolios and global share funds' on page 9. All of the distribution comprises capital gains, consistent with previous years. All of the capital gains are concessional capital gains and are therefore not tax-assessable for individuals and superannuation fund investors. Please refer to page 9 for the other factors that affected global shares this year, outlined in 'How economic growth has affected funds with exposure to shares'. At the end of FY2017, the fund still has carried forward revenue and capital losses. The effect on distributions is outlined on page 10.
MLC Hedged Global Share Fund Class B (MLC0785AU)	1.61	1.61 (2.2%)	4.84 (5.9%)	0.85 (1.1%)	
MLC-Platinum Global Fund (MLC0317AU)	6.47	6.47 (6.2%)	7.55 (6.3%)	7.41 (7.0%)	Almost all of the distribution comprised capital gains. The fund's annual distribution tends to fluctuate from year to year largely as a result of changes in realised capital gains and losses. More than three quarters of the capital gains are concessional capital gains which are not tax-assessable for individuals and superannuation fund investors. The fund has distributed assessable capital gains for the first time since the GFC period of 2008-9. Carried forward capital losses incurred during the GFC period have now been offset against capital gains generated by strong returns post the GFC.

MLC Wholesale funds (APIR code)	Quarter cpu	Full year cpu (distribution yield)[2]			Comments
	June 2017	2016/17	2015/16	2014/15	FY2017 distributions compared to FY2016
					As a result the fund has returned to a net tax-assessable capital gain position this year. Please refer to page 9 for the other factors that affected global shares this year, outlined in 'How economic growth has affected funds with exposure to shares'.
MLC Property Securities Fund (MLC0263AU)	2.19	3.23 (4.5%)	3.13 (5.2%)	2.83 (5.4%)	The small increase in distribution compared to FY2016 was due to an increase in income, such as rental income, from investments in Real Estate Investment Trusts (REITs). The fund's tax-deferred income was lower than FY2016 because the tax-deferred income received from its investments in Scentre Group and Investa Office Fund decreased significantly. A quarter of the distribution was capital gains. All of the capital gains are concessional capital gains and are therefore not tax-assessable for individuals and superannuation fund investors. Please refer to page 9 for the factors that affected Australian property securities this year. At the end of FY2017, the fund still has carried forward capital losses. The effect on distributions is outlined on page 10.
MLC Global Property Fund Class A (MLC0786AU)	0.00	0.00 (0.0%)	5.85 (8.7%)	2.07 (3.3%)	The fund didn't pay a distribution this financial year. In FY2017 the fund had no taxable income or concessional capital gains to distribute. At the end of FY2017, the fund still has carried forward revenue and capital losses. Their effect on distributions is outlined on page 10.
MLC Global Property Fund Class B (MLC0784AU)	0.00	0.00 (0.0%)	6.64 (8.6%)	2.38 (3.3%)	
MLC Diversified Debt Fund Class A (MLC0839AU)	2.43	4.33 (4.2%)	4.81 (4.7%)	4.27 (4.1%)	The fund's distribution was slightly lower than FY2016 due to decreased income from Australian and global fixed income securities. The fund's distribution yield is similar to recent years.
MLC Diversified Debt Fund Class B (MLC0855AU)	1.88	2.99 (2.9%)	3.55 (3.5%)	3.00 (2.9%)	

Past distributions are not indicative of future distributions. Past performance is not indicative of future performance. The value of an investment may rise or fall with the changes in the market.

2. Key factors affecting distributions in FY2017

The MLC Horizon and Inflation 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 described below (ie shares, property and fixed income). The allocations to the asset classes are different for each of the portfolios.

MLC's share funds (except for MLC IncomeBuilder), and MLC's multi-asset portfolios with high allocations to shares, are designed to provide capital growth. Although 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 FY2017.

How economic growth has affected funds with exposure to shares

There are many factors that affect the share prices and dividends of companies listed on the share market. Economic growth is a common factor that affects most companies. In a growing economy, customers generally have more money to pay off their debts or spend on the goods and services companies produce. When customers spend more, company earnings and profits may increase, leading to higher dividends and share prices. An economy growing slowly or contracting has the opposite effect on dividends and share prices.

The global economic environment has been more positive this year compared to FY2016. The US economy has grown modestly and China's growth is stabilising. There has also been some welcome improvement in Europe with a fall in the unemployment rate and a pick-up in inflation.

We've seen a broad-based increase in company earnings this year, across major developed countries resulting in generally higher dividends from overseas companies. However, dividends tend not to be a large component of global share fund income distributions because overseas companies tend to pay lower levels of dividends than Australian companies, and fund expenses mostly offset any dividend income.

The positive company earnings back-drop has led to a surge in share prices and returns of Australian and global share funds. After periods of strong returns, funds tend to distribute higher amounts of capital gains.

While Australian companies have experienced rising share prices, dividends distributed by many of the Australian share funds have decreased when compared to FY2016 because:

- Australian company earnings haven't generally risen as strongly as overseas companies, with many Australian companies trimming their earnings outlook for 2017. Earnings growth has been flat to weak for many companies.
- Australia's economic growth hasn't been as strong in recent years because the end of the mining boom has left a gap in our growth that's only partially being filled by exports and housing construction. Retail sales growth has slowed and consumers appear reluctant to spend, given concerns over the global economy, the mining sector downturn, high household debt, and subdued wages growth.
- The cut to special dividends paid by companies observed in 2015/16 is continuing into 2016/17.
- Payout ratios (the percentage of earnings paid to shareholders as dividends) were previously elevated.

MLC Horizon 2 to 7 Portfolios and global share funds

Most funds with exposure to global shares paid significantly lower final distributions than their unusually high distributions in FY2016. The decrease is largely due to lower realised capital gains. This year's distribution is closer to the amount paid in FY2015.

Australian property securities

The market performance of listed Australian Real Estate Investment Trusts (A-REITs) was significantly weaker than last year, at around -6% compared to last year's return of around 25% (based on the S&P/ASX 300 A-REIT Accumulation Index). A-REITs have had a period of solid returns prior to FY2017 reflecting investor interest in sectors like A-REITs that have attractive income yields when compared with bonds and term deposits.

Rental income, payout ratios and A-REIT borrowings appear to be at more sustainable levels than in years pre-GFC. Most A-REITs either increased or maintained the level of their distributions driven by modest earnings growth.

Global property securities

The global REIT market fell toward the end of FY2016 after a period of strong returns due to favourable operating conditions for real estate. The market performance of global REITs was weaker this year at around -3% compared to last year's return of around 15% (based on the unhedged FTSE EPRA/NAREIT Global Developed Index).

Cash

Income from cash was slightly lower this year because the Reserve Bank of Australia cut their cash rate target from 1.75% to 1.5% in August 2016. This is a historic low.

Fixed income

Income from Australian fixed income investments generated slightly lower levels of income this year.

Income from global fixed income investments with shorter terms to maturity produced higher levels of income this year than in FY2016 due to falling yields on bonds with higher credit risk. When bond yields fall, the value of the fixed income securities increases which flows through to higher returns and income for distribution.

However, longer maturity global fixed income investments produced slightly lower levels of income this year.

Carried forward capital losses

Capital losses have a significant impact on the level of distributions. During the 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 in future years.

Carried forward revenue losses

Carried forward revenue losses can significantly reduce distributions of income.

When a fund's expenses are higher than its income and capital gains, the fund will have a revenue loss. Distributions are paid out of a fund's income, after deducting expenses and carried forward revenue losses. Therefore, prior year revenue losses continue to reduce distributions until they are offset in future years.

If a fund has a revenue loss, in particular circumstances the fund can distribute concessional capital gains which are taxed favourably.

3. Frequently asked questions

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.

How are managed funds taxed?

Managed funds do not generally pay tax because their income (including net capital gains) is distributed to investors each financial year. Investors pay tax on distributions at individual marginal tax rates.

The income of managed funds retains its character as it passes to investors. Income may comprise dividends, interest, foreign income, tax free and tax deferred income, net capital gains and other income. Each of these income components has different tax implications for investors. Some examples are:

- Dividends from a managed fund's investment in Australian companies can have associated franking (also known as imputation) credits. A franking credit is a way of passing on the tax a company has already paid, as a credit to investors to offset against their own tax. This way, company profits are not 'double taxed'. If an investor's top tax rate is less than the company's tax rate (ie the investor would have paid less tax on the income than the company did) the Australian Tax Office will refund the difference to the investor.
- Foreign income may include foreign tax credits that may be used to reduce Australian tax payable on foreign income.
- Tax-free and tax-deferred amounts are not included in an investor's assessable income at the time of distribution. These amounts may, however, affect the taxable capital gain or loss when the investor sells their units.
- Net capital gains made by a unit trust when assets are sold, are distributed to investors in the financial year they were sold.

Capital gains and losses are also made when investors sell, switch or transfer any part of their unit holdings in a fund. Trusts and individuals are eligible for a 50% tax discount on gains made on assets held for 12 months or more.

Why does the unit price drop after a distribution?

Immediately after any of the Funds pay a distribution of income its unit price drops because the price no longer includes the distribution; similarly to when a listed company's share price trades as 'ex-dividend'. However, investors in a platform may not receive the distribution for a few weeks while the platform calculates and allocates investors their share of the distribution.

Significant unit price falls may cause complications for investors that gear their investment in the Funds.

What are the potential implications if I redeemed just prior to a financial year end distribution?

Investors and advisers need to be aware that if investors redeemed from a fund prior to the year end distribution, they may have realised a capital gain which will need to be included in the investor's assessable income in the year they redeemed. Redeeming may bring forward the tax an investor pays on their investment in the fund.

How does currency hedging help protect you from currency movements?

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.

How does hedging impact income distributions?

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 and dividends.

More questions?

If you have any questions please call us on 132 652 between 8am and 7pm (AEST), Monday to Friday.

Appendix 1: Financial year distribution history

The table below sets out the cpu distributions paid for the June 2017 quarter along with the full financial year (1 July to 30 June) distributions for the last eight years.

MLC Wholesale funds (APIR code)	Quarter cpu	Full year cpu (distribution yield)[4]							
	June 2017	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10
MLC Horizon 1 – Bond Portfolio (MLC0669AU)	2.16	3.15 (3.1%)	2.59 (2.5%)	2.14 (2.1%)	2.51 (2.5%)	3.14 (3.1%)	2.89 (2.9%)	5.41 (5.5%)	4.14 (4.3%)
MLC Horizon 2 – Income Portfolio (MLC0670AU)	2.56	3.55 (3.5%)	6.83 (6.4%)	3.13 (3.0%)	2.45 (2.5%)	3.51 (3.8%)	3.39 (3.7%)	5.12 (5.7%)	4.35 (5.1%)
MLC Horizon 3 – Conservative Growth Portfolio (MLC0398AU)	2.65	3.43 (3.3%)	6.71 (6.0%)	3.65 (3.5%)	2.46 (2.5%)	2.83 (3.2%)	2.75 (3.1%)	4.89 (5.6%)	4.81 (5.8%)
MLC Horizon 4 – Balanced Portfolio (MLC0260AU)	3.09	3.88 (3.7%)	7.56 (6.8%)	4.69 (4.5%)	2.73 (2.9%)	2.71 (3.2%)	2.62 (3.1%)	4.95 (6.0%)	4.16 (5.3%)
MLC Horizon 5 – Growth Portfolio (MLC0265AU)	3.27	4.02 (3.9%)	8.94 (7.9%)	4.58 (4.4%)	2.72 (2.9%)	2.36 (3.0%)	2.85 (3.4%)	5.18 (6.4%)	3.41 (4.5%)
MLC Horizon 6 – Share Portfolio (MLC0397AU)	4.55	4.55 (4.6%)	9.71 (8.8%)	4.35 (4.3%)	2.54 (2.9%)	1.56 (2.2%)	1.78 (2.3%)	5.09 (6.9%)	3.63 (5.3%)
MLC Horizon 7 – Accelerated Growth Portfolio (MLC0449AU)	5.45	5.45 (4.6%)	14.14 (10.4%)	4.67 (3.9%)	2.21 (2.2%)	0.91 (1.2%)	1.03 (1.2%)	5.68 (7.1%)	5.45 (7.4%)
MLC Inflation Plus – Conservative Portfolio (MLC0921AU)	2.21	2.21 (2.1%)	2.99 (2.8%)	5.06 (5.0%)	2.11 [5]	n/a	n/a	n/a	n/a
MLC Inflation Plus – Moderate Portfolio (MLC0920AU)	2.94	2.94 (2.8%)	3.75 (3.5%)	6.31 (6.2%)	3.17 [5]	n/a	n/a	n/a	n/a

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[4] 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 mlcinvestmenttrust.com.au

[5] Partial year, as the fund was launched in October 2013.

MLC Wholesale funds

Annual distribution commentary, 2017 financial year

MLC Wholesale funds (APIR code)	Quarter cpu	Full year cpu (distribution yield)[4]							
	June 2017	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10
MLC Inflation Plus – Assertive Portfolio Class A (MLC0667AU)	4.71	4.71 (5.3%)	8.12 (8.4%)	11.68 (12.5%)	2.05 (2.4%)	0.95 (1.3%)	3.00 (4.0%)	4.22 (6.0%)	7.66 (11.5%)
MLC Inflation Plus – Assertive Portfolio Class B (MLC0668AU)	3.49	3.49 (3.9%)	6.84 (7.0%)	10.18 (10.9%)	1.44 (1.6%)	0.18 (0.2%)	1.84 (2.4%)	3.32 (4.7%)	6.78 (10.1%)
MLC Australian Share Fund (MLC0262AU)	9.63	11.57 (12.2%)	6.14 (6.2%)	5.90 (6.0%)	4.78 (5.4%)	2.96 (3.9%)	3.41 (3.9%)	3.66 (4.4%)	2.69 (3.4%)
MLC IncomeBuilder (MLC0264AU)	8.47	13.43 (8.2%)	11.80 (6.4%)	18.98 (10.4%)	10.99 (6.7%)	10.60 (7.8%)	6.87 (4.8%)	6.63 (4.7%)	5.77 (4.2%)
MLC Australian Share Index Fund (MLC0893AU)	5.59	9.19 (7.4%)	5.00 (3.9%)	5.29 (4.2%)	5.81 (5.2%)	5.11 (5.2%)	1.77 [6] (-)	n/a	n/a
MLC Global Share Fund (MLC0261AU)	3.85	3.85 (4.3%)	15.99 (14.8%)	2.15 (2.4%)	1.45 (1.9%)	0.46 (0.8%)	0.69 (1.1%)	0.68 (1.1%)	0.66 (1.2%)
MLC Hedged Global Share Fund Class A (MLC0787AU)	1.73	1.73 (2.2%)	5.15 (6.0%)	0.89 (1.1%)	0.6 (0.9%)	0.06 (0.1%)	0.01 (0.0%)	6.59 (13.2%)	9.53 (18.7%)
MLC Hedged Global Share Fund Class B (MLC0785AU)	1.61	1.61 (2.2%)	4.84 (5.9%)	0.85 (1.1%)	0.57 (0.9%)	0.06 (0.1%)	0.01 (0.0%)	5.93 (12.0%)	8.58 (17.1%)
MLC-Platinum Global Fund (MLC0317AU)	6.47	6.47 (6.2%)	7.55 (6.3%)	7.41 (7.0%)	-	-	0.84 (1.2%)	0.79 (1.1%)	4.50 (6.8%)
MLC Property Securities Fund (MLC0263AU)	2.19	3.23 (4.5%)	3.13 (5.2%)	2.83 (5.4%)	2.13 (4.3%)	1.65 (3.9%)	2.09 (5.3%)	1.78 (4.6%)	2.74 (7.7%)
MLC Global Property Fund Class A (MLC0786AU)	0.00	0.00 (0.0%)	5.85 (8.7%)	2.07 (3.3%)	0.75 (1.4%)	0.75 (1.7%)	0.11 (0.2%)	8.72 (20.8%)	5.58 (15.6%)
MLC Global Property Fund Class B (MLC0784AU)	0.00	0.00 (0.0%)	6.64 (8.6%)	2.38 (3.3%)	0.87 (1.4%)	0.09 (0.2%)	0.13 (0.2%)	9.50 (19.1%)	5.30 (12.7%)

[6] Partial year, as the fund was launched in November 2011.

MLC Wholesale funds

Annual distribution commentary, 2017 financial year

MLC Wholesale funds (APIR code)	Quarter cpu	Full year cpu (distribution yield)[4]							
	June 2017	2016/17	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10
MLC Diversified Debt Fund Class A (MLC0839AU)	2.43	4.33 (4.2%)	4.81 (4.7%)	4.27 (4.1%)	2.72 (2.7%)	4.54 (4.5%)	4.66 (4.9%)	4.44 (4.8%)	4.81 (5.4%)
MLC Diversified Debt Fund Class B (MLC0855AU)	1.88	2.99 (2.9%)	3.55 (3.5%)	3.00 (2.9%)	1.42 (1.4%)	3.37 (3.4%)	3.72 (3.9%)	3.44 (3.7%)	3.95 (4.4%)

Past distributions are not indicative of future distributions. Past performance is not indicative of future performance. The value of an investment may rise or fall with the changes in the market.

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