MLC Investment Management

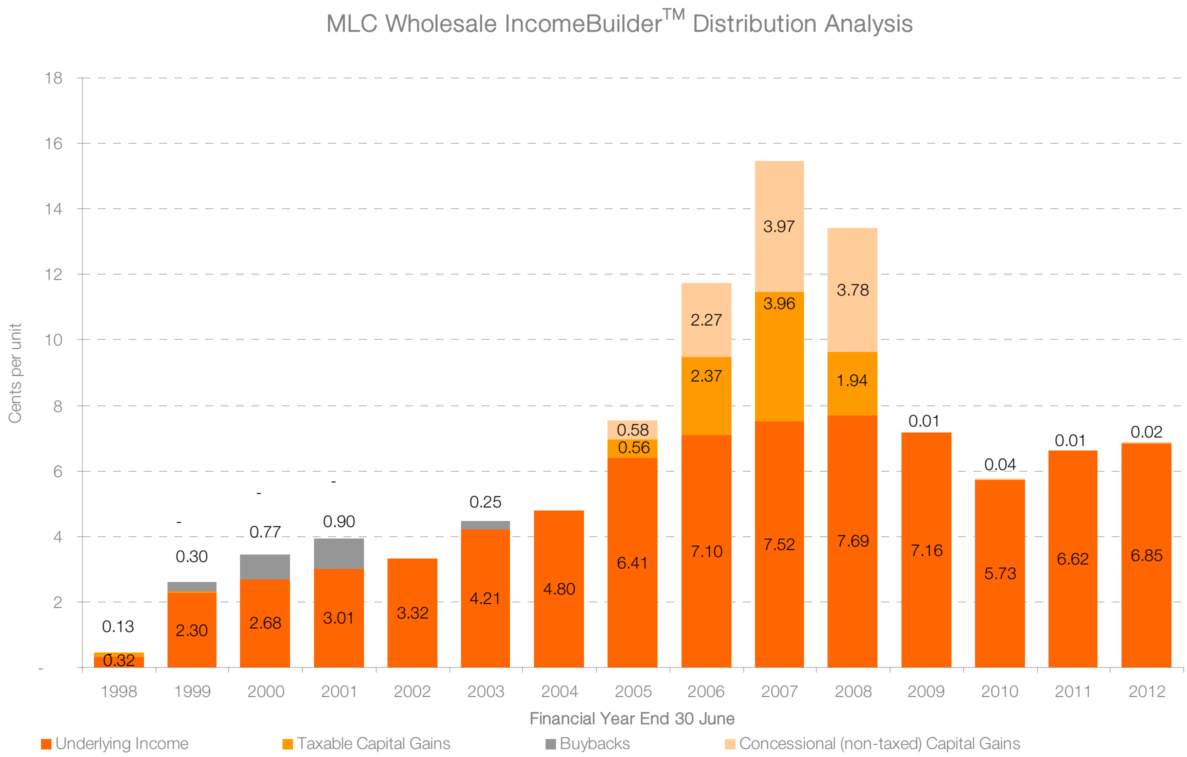
MLC Wholesale IncomeBuilder™

Annual distribution commentary

30 June 2012

Underlying income distributions

MLC IncomeBuilder™ has a successful history of achieving its primary objective of producing a growing, tax-effective income stream. In its seventeen year history, the underlying income distribution of MLC IncomeBuilder™ has grown with a high degree of consistency, as shown in the chart below. For the 2011/12 financial year the fund has continued to grow underlying income, after a fall in 2010, although this year's result is still lower than the previous peak in 2008/09.



Source: MLC Wholesale IncomeBuilder™

For the financial year ended 30 June 2012, MLC Wholesale IncomeBuilder™ produced an underlying income distribution of 6.85 cents per unit (cpu). This is 3.5% higher than the previous year's 6.62 cpu distribution and reflects the continued recovery in company profits and dividends by a number of companies the fund owns. However, the earnings growth environment is challenging for many companies, particularly those who have had to contend with a high Australian dollar or with exposure to weak consumer sentiment. For those companies, operating conditions have been challenging and dividends have either remained flat or, in some cases, were lower.

One bright spot for the fund has been the banking sector, which continues to be an important source of dividends. As in the previous year, bank earnings have grown and dividends were commensurately higher. Based on the last two dividends declared in the past year by each bank, ANZ's rate of dividend growth was the lowest at 2.9%, while Westpac, National

Australia Bank and Commonwealth Bank each grew their dividends by 7.6% or more. Looking ahead, the banks face a more uncertain environment, both globally and locally, and dividend growth is likely to be more muted.

The fund's investments in Wesfarmers and Coca-Cola Amatil continued to be beneficial, as both had strong increases in their dividends. Wesfarmers' latest interim and final dividends totalled $1.55 per share, 14.8% higher than last year's dividend total. The diversity of Wesfarmers' operations was beneficial, with the performance strength of its Retail division helping to offset the earnings declines of other divisions. Coca-Cola Amatil's 52.5 cent dividend was 8.2% above last year's and represents the twelfth consecutive year of dividend growth. The company is strongly positioned to handle the current competition among major retailers and has a pipeline of capital expenditure projects which are expected to contribute positively to future earnings.

After announcing it had increased its dividend payout policy from 50% to 70% of earnings, Suncorp's full year dividend increased by 14.3% to 40 cents per share. This follows two years of flat dividends. The company is also conducting a review of its businesses and the possible sale of non-core operations could result in a release of surplus capital to shareholders.

Not all of the fund's investments produced higher dividends. Telstra's 28 cent dividend has remained unchanged for some years, though its fully franked dividend yield is significantly higher than the market average yield.

The table below shows how the total of the most recent interim and final dividend of selected companies owned by the fund compares to their corresponding dividend total for the previous year.

	Total dividend		
Company	2010/11 ($)	2011/12 ($)	% change
AMP	0.30	0.29	-3.3%
ANZ	1.38	1.42	2.9%
Brambles	0.255	0.26	2.0%
Coca-Cola Amatil	0.485	0.525	8.2%
Commonwealth Bank	3.02	3.25	7.6%
National Australia Bank	1. 62	1.78	9.9%
Suncorp	0.35	0.40	14.3%
Telstra	0.28	0.28	0%
Wesfarmers	1.35	1.55	14.8%
Westpac	1.50	1.62	8.0%
Woolworths	1.19	1.24	4.2%

Source: IRESS

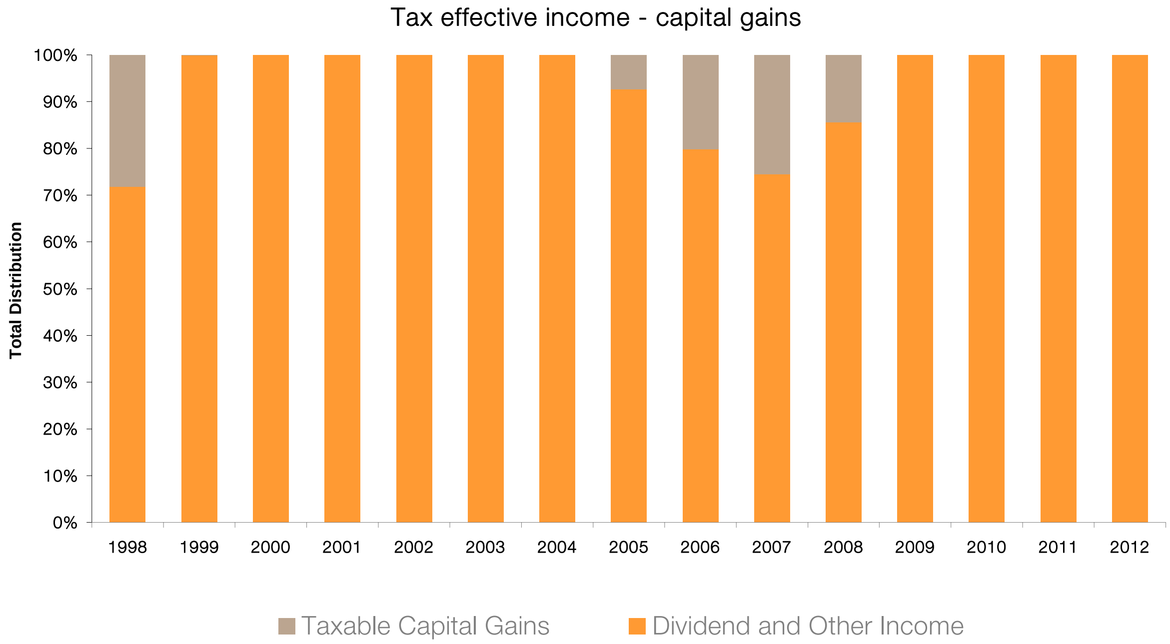
The table below shows the increases in distributions that have occurred each quarter for the fund, compared with the same quarter of the previous year.

	Quarterly underlying income distributions		
	2010/11	2011/12	% change
Quarter 1 (Sep)	1.12	1.29	15.18
Quarter 2 (Dec)	1.81	1.91	5.52
Quarter 3 (Mar)	1.48	1.46	-1.35
Quarter 4 (June)	2.21	2.19	-0.90
Total	**6.62**	**6.85**	**3.47**

Source: MLC Wholesale IncomeBuilder™

Capital gains

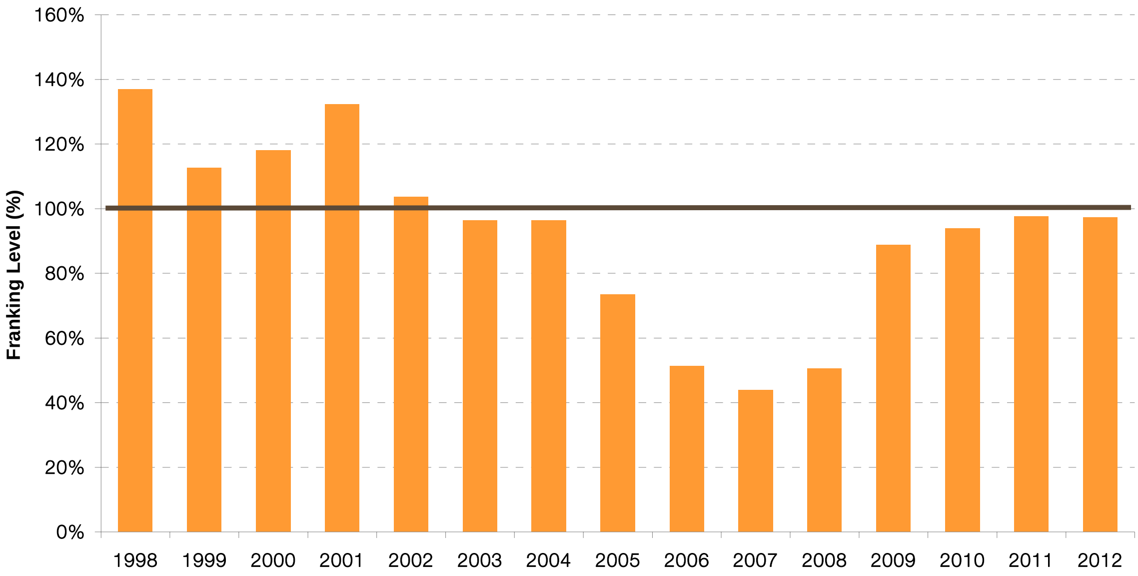
The capital gains portion of the annual distribution (see next diagram) was again very low at 0.02 cpu and was made up entirely of concessional capital gains. This is consistent with the fund's primary objective, which is to grow income in a tax-effective manner. Capital gains realised during the year were a result of normal buying and selling and were largely offset by capital losses during the period.



Source: MLC Wholesale IncomeBuilder™

Franking levels

As shown in the following chart, the franking level of the fund in the year just completed was 97.3%. Franking credits on the total distribution have remained just under 100% in the last four years, up from just over 40% in 2007. This is directly correlated with the decline in capital gains distributed over these years (see previous chart), as well as the continuing focus on companies that pay highly franked dividends.



Source: MLC Wholesale IncomeBuilder™

Summary

The post-GFC recovery in company earnings and dividend payout ratios has largely run its course and earnings prospects from here will be relatively modest. While Australian companies are generally in good financial health, some sectors will continue to experience challenging economic circumstances. However, lower interest rates and the recent fall in the Australian dollar will ease the pressure on some companies. Overall, earnings and dividend growth prospects are modest.

In this environment, MLC Wholesale IncomeBuilder™ is well positioned. It is diversified across industries and companies that are enjoying earnings and dividend growth, while also investing in companies that are undergoing a pause in earnings and dividend growth but have attractive long term prospects. The portfolio is also managed by very experienced investment firms Maple-Brown Abbott and Vanguard. We believe that the fund's ongoing focus on producing a growing income stream will ultimately be advantageous for investors, as has been the case since the fund's inception.

Important information:

All data quoted is for MLC Wholesale IncomeBuilder™ as at 30 June 2012

Past performance is not indicative of future performance. The future value of investments may rise and fall with changes in the market.

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