



# MLC MasterKey Unit Trust IncomeBuilder

Annual distribution commentary, 2024 financial year

20 June 2024

## Summary

This financial year was a positive year for investors who rely on Australian shares for income. The distributions from dividend income were slightly lower in the 2024 financial year (FY2024). The increases in dividend payments made by Australian banks, ANZ, CBA, NAB and Westpac were offset by moderately lower dividends from BHP and Woodside Energy.

On Friday, 31 May 2024 the last cash distribution for FY2024 was made to investors in MLC IncomeBuilder. Table 1 provides the annual cents per unit (cpu) distribution and its components for this financial year and the previous eight years for comparison.

**Table 1: MLC IncomeBuilder distributions history**

Financial year ending 31 May	2023/24	2022/23	2021/22	2020/21	2019/20	2018/19	2017/18	2016/17	2015/16
Total underlying income distribution* (cpu)	7.32	7.98	6.21	2.92	6.84	8.60	7.70	7.93	8.45
Capital gains (cpu)**	11.04	5.98	11.56	8.93	9.26	14.24	4.76	9.26	8.09
Total distributions (cpu)	18.36	13.96	17.77	11.85	16.10	22.84	12.46	17.19	16.54
Franking level of distributed income (excluding non-assessable capital gains)	62%	90%	65%	63%	76%	68%	102%	89%	90%
Franking level of dividend income	109%	123%	125%	161%	127%	124%	133%	140%	134%

\* Underlying distribution consists of dividend and other income and excludes capital gains.

\*\*Part of the capital gains are concessional capital gains which are non-tax assessable for individuals and superannuation investors as follows:

- Individual investors: approximately half of the capital gains are concessional capital gains which are not tax-assessable
- Superannuation fund investors: approximately a third of the capital gains are concessional capital gains which are not tax-assessable.

The above amounts are historical distributions and are not indicative of future distributions.

In summary, for the FY2024, the fund's:

- total distribution is moderately higher than last year mainly due to an increase in capital gains income.
- underlying income is mostly franked dividends which provide investors with a tax-efficient income stream.
- capital gains were higher than the prior year's. Half of the capital gains are concessional capital gains and are therefore not tax-assessable for individuals, and a third are not tax-assessable for superannuation fund investors. The remainder of the distributed capital gains is taxed at the investor's marginal tax rate.

# MLC MasterKey Unit Trust IncomeBuilder

Annual distribution commentary, 2024 financial year  
20 June 2024

## Underlying income distribution

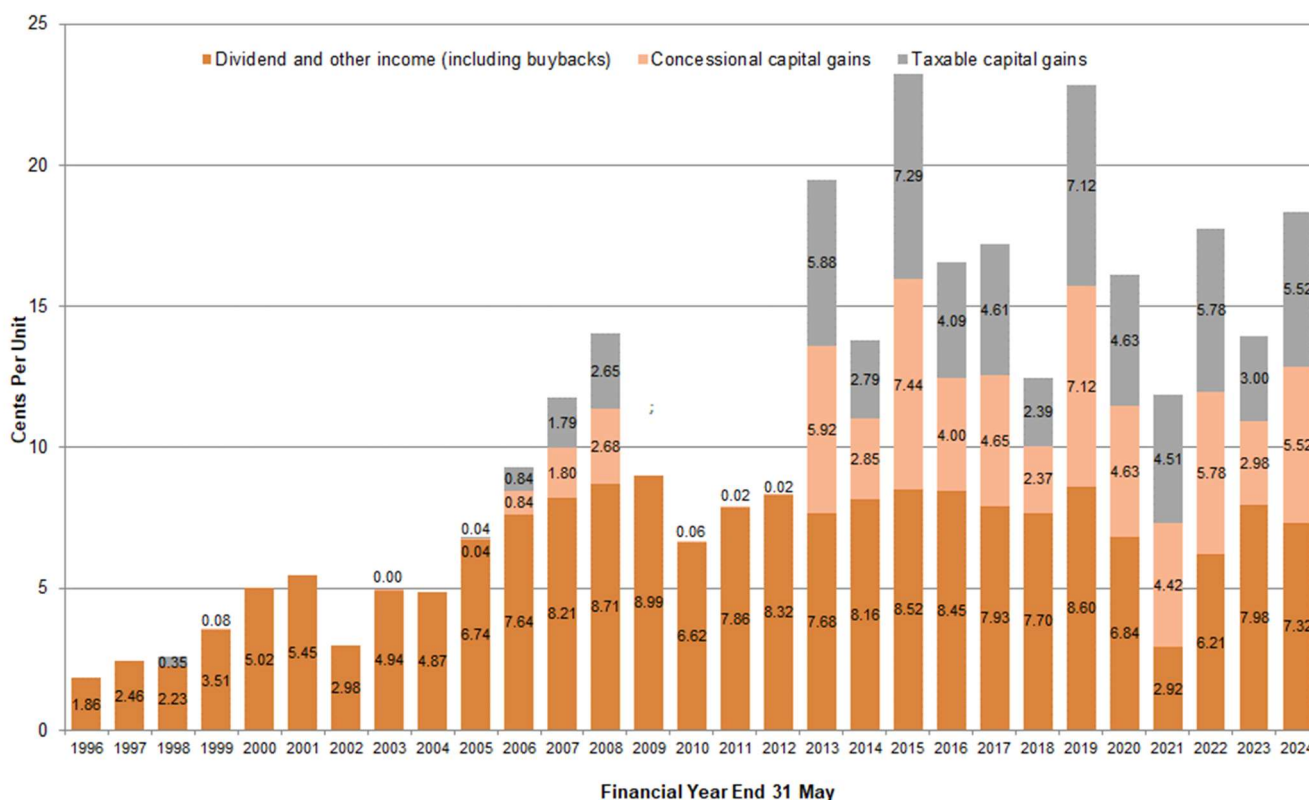
We manage the fund to allow all dividends and any other income generated by the fund's investments to flow through to investors rather than 'engineering' an income stream through more frequent portfolio turnover, hybrid investments or using derivatives. In more normal environments the fund's distributions tend to be stable over the medium term, reflecting the dividend policies of the companies the fund invests in. We continue to believe the investment approaches of our investment managers and regular fund distributions provides a more reliable way of delivering sustainable long-term tax efficient income to investors.

However, there have been times when the fund's underlying income growth (shown by the orange bars in Chart 1) slows or reduces as company earnings slow. Due to the nature of the economic shutdown required to contain COVID-19, dividends were significantly impacted in 2021. However as the economy normalised, many companies recommenced paying their regular dividends in 2022, although some companies continued to experience challenges post the COVID-19 period.

In FY2024 the fund's net income was adequate to distribute in each quarter (August, November, February and May).

Chart 1 shows that when you look back over the almost 30 years since the fund's inception, that it has a history of achieving its primary objective of producing a growing, tax-efficient income stream.

**Chart 1: MLC IncomeBuilder annual distributions**



**Source:** MLC IncomeBuilder. Distributions are calculated net of fees. Concessional capital gains are shown for individual investors; superannuation fund investors will have lower concessional capital gains and higher taxable capital gains than shown in the chart.

The above amounts are historical distributions and are not indicative of future distributions.

The fund's underlying income excludes capital gains and currently comprises mostly dividend income with a small exposure to distributions of Australian Real Estate Investment Trusts (REITs) and interest income from the

# MLC MasterKey Unit Trust IncomeBuilder

Annual distribution commentary, 2024 financial year  
20 June 2024

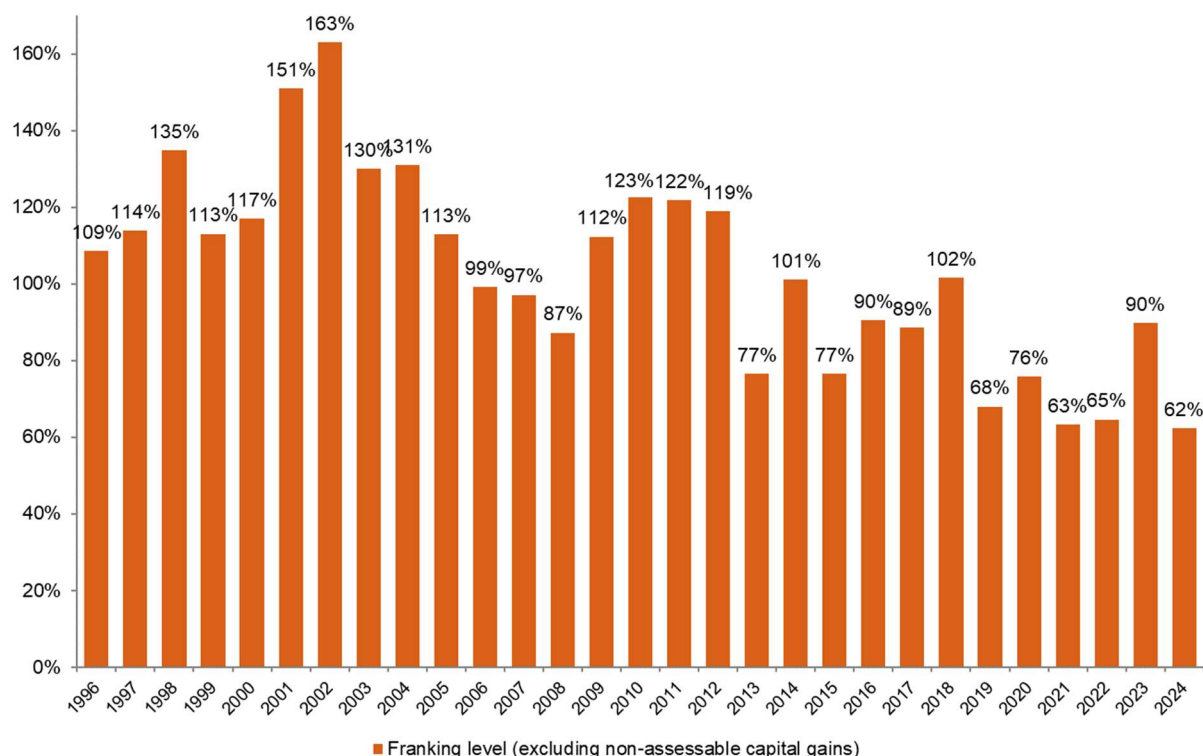
immaterial cash exposure. Most of the underlying income is franked dividends which provides investors with a tax-efficient income stream.

## Franking levels

MLC IncomeBuilder has delivered a tax-efficient income stream with a franking level of 62% this year (Chart 2).

Since its inception, the fund has maintained a high franking level by investing in Australian companies that derive most of their earnings from Australian sources, and therefore pay domestic tax on those earnings.

**Chart 2: Franking levels for MLC IncomeBuilder**



**Source:** MLC IncomeBuilder. Franking levels shown in the graph are calculated net of fees and exclude non-assessable capital gains for individual investors, in accordance with FSC's standard. Superannuation fund investor franking levels would be lower than shown in the graph as their concessional capital gains will be lower, and taxable capital gains higher.

The above amounts are historical franking levels and are not indicative of future franking levels.

The fund's franking level is a measure of the imputation credits attached to its income distribution.

## Capital gains

Over the long term the fund has demonstrated the majority of its distributions have been franked dividend income. However, the fund is also required to distribute any realised capital gains at the end of its financial year. Capital gains can arise when the fund sells shares at prices higher than their original purchase price.

Where our active investment managers, Antares Equities and Maple-Brown Abbott, believe share values have reached their full potential, we expect the managers to seek better long-term risk and return opportunities. In this way our managers seek to grow and preserve investor's capital over the long term, from which future franked dividend income may be generated. However, these portfolio changes can result in the realisation of capital gains.

These gains typically feature in the fund's distribution after periods of very strong market performance and as a result of corporate actions such as takeovers and buybacks.



## MLC MasterKey Unit Trust IncomeBuilder

Annual distribution commentary, 2024 financial year  
20 June 2024

Our investment managers tend to hold shares for long periods of time and don't generally buy and sell the same company within a year. Therefore the benefit of the capital gain discount is passed onto investors. That's why half of the capital gains distributed this year (shown in Chart 1) were concessional capital gains, which are not tax-assessable for individuals, and a third are not tax-assessable for superannuation fund investors.

The net taxable realised capital gains portion of the annual distribution is automatically reinvested as additional units. This ensures an investor's capital base, from which their dividend income is generated, continues to grow by being re-invested in the fund. The fund has operated in this way since it was established, as it helps investors remain focussed on maintaining a growing tax-efficient income stream.

### Dividends from the fund's investments

Table 2 shows dividends paid by MLC IncomeBuilder's larger company holdings in FY2024 and how their dividend has changed compared to the same time last year. More than 70% of the fund is invested in the companies below. While some companies didn't change, or decreased, their dividends compared to this time last year, the majority have increased their dividends this financial year.

**Table 2: Dividends paid in FY2024, by MLC IncomeBuilder's largest company holdings, ordered from large to small exposures**

Company	Dividend (\$ per share)	% change in dividend compared to FY2023
National Australia Bank	\$1.67	11%
Westpac Banking Corporation	\$1.42	14%
ANZ Group Holdings	\$1.75	20%
Telstra Group	\$0.18	3%
Coles Group	\$0.66	0%
Suncorp Group	\$0.61	22%
Commonwealth Bank	\$4.55	8%
CSL	\$3.81	13%
Woodside Energy Group	\$2.16	-42%
BHP Group	\$2.35	-40%
QBE Insurance Group	\$0.62	59%
Insurance Australia Group	\$0.19	73%
Nine Entertainment	\$0.09	-31%
Orica	\$0.43	23%
Lottery Corp.	\$0.14	56%
Origin Energy	\$0.48	44%
Brambles	\$0.45	28%
Incitec Pivot	\$0.41	51%
Ansell	\$0.65	-12%
Amcor Plc	\$0.76	7%

Sources: ASX, MLC Asset Management Services Limited. Securities mentioned in this commentary may no longer be held in MLC IncomeBuilder.



## MLC MasterKey Unit Trust IncomeBuilder

Annual distribution commentary, 2024 financial year  
20 June 2024

### Outlook

The fund's income distributions have rebounded strongly following the impact of COVID-19 lockdowns on earnings. We must be mindful however that as Australia's economy faces challenges with weakening retail spending and housing construction, domestic facing companies' earnings growth expectations are relatively flat. Consumer inflation has been more persistent at 3.6% in the year to April 2024, which is also putting some negative pressure on company earnings where cost increases cannot be passed on as well as lower consumer confidence and consumer spending.

The active investment style and deep company research practiced by both our managers, Antares Equities and Maple-Brown Abbott, will help position the fund's investments appropriately as the economy continues to face uncertainty with regard to the outlook for interest rates, inflation and growth.

These managers' investment approaches when blended, have proven that they can provide a reliable way of delivering sustainable long-term tax efficient income to investors. The active investment style and deep company research practiced by both managers will help position the fund's investments appropriately as the economy continues to recover and companies gradually return their dividends and payout ratio policies back towards pre-pandemic levels.

Up-to-date commentary on the performance of MLC IncomeBuilder, including information on the dividends declared by underlying companies, is available on the Fund Profile Tool on <https://www.mlc.com.au/fundprofiletool>.

### Important information

This information is provided by MLC Investments Limited (ABN 30 002 641 661, AFSL 230705), part of the Insignia Financial Group of companies (comprising Insignia Financial Ltd ABN 49 100 103 722 and its related bodies corporate) ('Insignia Financial Group'). The capital value, payment of income, and performance of the Funds are not guaranteed. An investment in the Funds is subject to investment risk, including possible delays in repayment of capital and loss of income and principal invested. No member of the Insignia Financial Group guarantees or otherwise accepts any liability in respect of any financial product referred to in this communication.

This information is directed to and prepared for Australian residents only.

This information may constitute general advice. It has been prepared without taking account of an investor's objectives, financial situation or needs and because of that an investor should, before acting on the advice, consider the appropriateness of the advice having regard to their personal objectives, financial situation and needs.

You should obtain a Product Disclosure Statement (PDS) relating to the financial product mentioned in this communication issued by MLC Investments Limited, and consider it before making any decision about whether to acquire or continue to hold the product. Target Market Determinations (TMDs) for relevant products are also required to be made available and considered by distributors. A copy of the PDS (or other disclosure documents) and TMD is available upon request by phoning the MLC call centre on 132 652 or on our website at [mlc.com.au](http://mlc.com.au).

Any general tax information provided in this publication is intended as a guide only and is based on our general understanding of taxation laws. It is not intended to be a substitute for specialised taxation advice or an assessment of your liabilities, obligations or claim entitlements that arise, or could arise, under taxation law, and we recommend you consult with a registered tax agent.

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.

Any projection or other forward-looking statement ('Projection') in this communication is provided for information purposes only. No representation is made as to the accuracy of any such Projection or that it will be met. Actual events may vary materially.

Any opinions expressed in this communication constitute our judgement at the time of issue and are subject to change. We believe that the information contained in this communication is correct and that any estimates, opinions, conclusions or recommendations are reasonably held or made at the time of compilation. However, no warranty is made as to their accuracy or reliability (which may change without notice) or other information contained in this communication.

MLC Investments Limited relies on third parties to provide certain information and is not responsible for its accuracy. MLC Investments Limited is not liable for any loss arising from persons relying on information provided by third parties.

The investment managers are current as at the date this communication was prepared. Investment managers are regularly reviewed and may be appointed or removed at any time without prior notice to you.

MLC Investments Limited may use the services of any member of the Insignia Financial Group where it makes good business sense to do so and will benefit customers. Amounts paid for these services are always negotiated on an arm's length basis.