

## Fund Commentary

Performance drivers and positioning of the fund for the recent calendar quarter are explained below. Our investment experts also provide regular investment updates at [mlcam.com.au/insights](http://mlcam.com.au/insights)

### Total returns

The Australian share market posted relatively flat returns over the June 2023 quarter. MLC Wholesale IncomeBuilder provided a relative degree of resilience. The portfolio's return of 1.8% (before deducting fees and taxes) outperformed the broader Australian share market (ASX300) by 0.8%.

The ASX 300 lagged global markets over the quarter as the strong lead from overseas was tempered by somewhat unexpected Reserve Bank of Australia interest rate hikes which made investors more cautious. The drivers in the June quarter were similar to those which have played out for most of this year, with Technology and Consumer stocks doing much of the heavy lifting as investors attempt to put a value on Artificial Intelligence (AI) and assess any productivity gains this technology might produce. Materials were weaker in line with lower commodity prices and consumer facing sectors also struggled as interest rates continue to bite.

Both of the fund's underlying managers, Antares Equities and Maple Brown Abbott, outperformed the ASX300 but underperformed the ASX 200 All Industrials over the quarter.

### Income returns

The fund's commentary focuses on income returns because its objective is to provide an income stream (excluding capital gains) that grows each year.

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. The investment approaches of our active investment managers have proven they can provide a reliable way of delivering sustainable long-term tax efficient income to investors.

On Friday, 30 June 2023 the last cash distribution for the 2023 financial year (FY2023) was made to investors in MLC IncomeBuilder of 6.82 cents per unit (cpu).

Table 1 shows dividends paid by MLC IncomeBuilder's larger company holdings in FY2023 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 significantly this financial year.

**Table 1: Dividends paid in the financial year-to-date, by companies held by MLC IncomeBuilder, ordered from largest to smallest**

Company	Dividend (\$ per share)	% change in dividend compared to FY2022
National Australia Bank	\$1.51	19%
Westpac Banking Corporation	\$1.34	11%
ANZ Group Holdings	\$1.46	3%
Telstra Group	\$0.17	6%
Coles Group	\$0.66	8%
Commonwealth Bank	\$4.20	12%
Suncorp Group	\$0.50	-21%
Woodside Energy Group	\$3.75	101%
BHP Group	\$3.92	-18%
Brambles	\$0.35	19%
Origin Energy	\$0.33	65%
Lottery Corp.	\$0.09	First listed on 24 May 2022
QBE Insurance Group	\$0.39	30%
Orica	\$0.35	46%
Amcor Plc	\$0.72	11%
CSL	\$3.38	12%
Incitec Pivot	\$0.27	190%
Insurance Australia Group	\$0.11	-42%
Link Administration Holdings	\$0.13	47%

Sources: ASX, MLC Asset Management Services Limited.

Securities mentioned in this commentary may no longer be in MLC IncomeBuilder.

Table 2 provides the annual cents per unit (cpu) distribution and its components for FY2023 and the previous eight years for comparison. We note that the franking of underlying dividends paid remains high.

**Table 2: MLC Wholesale IncomeBuilder distributions history**

Financial year ending	2022/23	2021/22	2020/21	2019/20	2018/19	2017/18	2016/17	2015/16	2014/15
<b>30 June</b>									
Total underlying income	7.10	5.98	3.49	6.76	8.05	7.39	7.56	7.87	8.17

distribution* (cpu)									
Capital gains (cpu)**	4.53	12.07	2.80	2.13	7.99	2.50	5.87	3.93	10.81
Total distributions (cpu)	11.63	18.05	6.29	8.89	16.04	9.89	13.43	11.80	18.98
Franking level of distributed income (excluding non-assessable capital gains)	77%	48%	70%	79%	62%	82%	75%	86%	62%
Franking level of dividend income	101%	97%	99%	92%	93%	96%	101%	99%	102%

\* 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 FY2023, the fund's:

- total distribution is moderately lower than last year mainly due to a reduction in capital gains income.
- underlying income is mostly franked dividends which provide investors with a tax-efficient income stream.
- capital gains were lower 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. It's clear the corporate earnings, and the fund's ability to generate a growing income stream each year, has improved compared to the 2022 financial year and post pandemic recovery period.

Further details on MLC Wholesale IncomeBuilder's **FY2023 distribution is at [mlc.com.au](http://mlc.com.au)**.

#### Outlook

The portfolio is not forecasting material cuts to (bank) earnings and dividends over the near term, but rather more muted earning growth and the end of returning excess capital via capital management.

As we enter the August reporting season, we are not expecting a repeat of February where we saw upside surprises from reporting companies and earnings forecast upgrades.

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 revise their dividends and payout ratio policies back towards pre-pandemic levels.

#### Stock story

One of our Australian shares managers, Maple-Brown Abbott, provided the following stock story for one of the fund's holdings, which you may find interesting:

"Orica (ORI) has a strong earnings growth outlook as the explosives supply and demand balance in Australia swings back in favour of producers and several strategic initiatives come to fruition. The company is part-way through the repricing of ammonium nitrate manufactured in Australia, where geopolitical turmoil has upended supply chains and led to a surge in pricing, which will benefit earnings in years to come. Management is also looking to improve operating efficiency and its global production and supply footprint following the integration of recent acquisitions and the implementation of a new SAP operating system. Finally, ORI is taking steps to solidify its position as industry leader in the 'mine to mill' value chain to generate strong returns from new technology and innovation in the explosives and mining industry. The company is conservatively geared and combined with strong expectations of cash generation, ORI is well placed to take advantage of further growth opportunities as they arise."

Note:

- As our investment managers are constantly reviewing and making changes to their holdings, the companies referred may no longer be invested in by the fund.

- Commentary for this fund will be updated approximately three weeks after the end of the quarter.