

Fund Snapshot

MLC Wholesale IncomeBuilder



Fund Overview

About the Fund

The fund aims to provide an income stream (excluding capital gains) that grows each year, by investing primarily in Australian shares.

The fund invests primarily in listed Australian companies that have the potential to provide future sustainable or growing dividends.

The fund is expected to generate tax-efficient returns by: investing in companies expected to have high franking levels, and carefully managing the realisation of capital gains, where possible. The fund is expected to provide returns consistent with investing in a broad range of Australian companies.

The fund invests in companies that are listed (or expected to be listed) on the Australian Securities Exchange (and other regulated exchanges). It may have a small exposure to companies listed outside of Australia from time to time.

Key Information

APIR Code MLC0264AU

Status Onsale

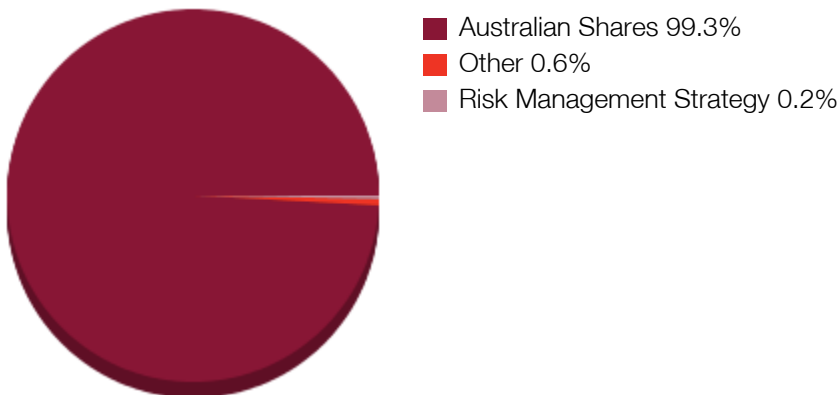
Product Size as at 30 Apr 2022
\$188.27M

Commencement Date
22 Jan 1998

Fund Breakdown

By Asset Class as at 30 Apr 2022

The information displayed reflects the actual asset allocation based on the holdings within the fund at the effective date.



By Manager as at 30 Apr 2022

Asset Class	Manager	Percentage	Investment Amount
■ Australian Shares	Antares	29.8%	\$2,978
	Maple-Brown Abbott	69.5%	\$6,946
■ Other	Other	0.6%	\$58
■ Risk Management Strategy	MLC	0.2%	\$18
Total		100.0%	\$10,000

Fund Snapshot

MLC Wholesale IncomeBuilder



Stock Holdings

Top Stocks for Fund as at 31 Mar 2022

The Top Stocks for Fund have a one month reporting delay.

Stock Description	Industry	Country	Percentage	Investment Amount
NATIONAL AUST BANK	Financials	Australia	9.3%	\$929
WESTPAC BANKING CORPORATION ORD F/PD SHARES	Financials	Australia	8.2%	\$815
ANZ BANKING GROUP	Financials	Australia	7.6%	\$759
TELSTRA CORP	Telecommunication Services	Australia	6.0%	\$604
COLES GROUP LTD	Consumer Staples	Australia	4.3%	\$427
BHP GROUP	Materials	Australia	4.2%	\$417
COMMONWEALTH BANK OF AUSTRALIA	Financials	Australia	4.0%	\$405
WOODSIDE PETROLEUM	Energy	Australia	4.0%	\$396
SUNCORP-METWAY	Financials	Australia	3.6%	\$364
TABCORP HOLDINGS	Consumer Discretionary	Australia	3.0%	\$299

Performance

Historical Performance

Absolute Fund Returns as at 30 Apr 2022

Returns for periods one year or greater are calculated on an annualised basis. All returns are calculated using end of month redemption prices assuming all distributions are reinvested and are net of management fees which may include administration fees, issuer fees and investment fees and prior to any individual tax considerations, and do not allow for initial entry fees.

The returns outlined below represent historical performance only and is not an indication of future performance. The value of an investment may rise or fall with changes in the market. Returns are calculated in accordance with FSC Standard No 6.

	3 month	6 month	1 Year	3 Years	5 Years	10 Years	Since Inception
Fund Performance	10.8%	7.4%	15.9%	8.4%	5.5%	9.3%	7.9%
Growth	10.1%	5.7%	10.5%	1.9%	-1.1%	2.3%	2.4%
Distribution	0.7%	1.7%	5.4%	6.5%	6.6%	7.0%	5.5%

Value Since Inception - MLC MasterKey Investment Service Fundamentals



Fund Snapshot

MLC Wholesale IncomeBuilder



Commentaries

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

Total returns

The fund benefited from the markets continued sell-off of growth companies and shift to favour value companies which tend to have higher earnings.

The February earnings reporting season came and went without too many surprises. In general, Australian companies reported strong operating performance over the December half. Around half of all companies reporting beating earnings expectations, while a quarter were in-line. Notably, retail sales remained resilient and confidence in a post-COVID economic recovery was high.

The major banks performed well on expectations of interest rate rises and the positive flow on effect this could have on their net interest margins.

Both of the funds managers, Antares Equities and Maple Brown Abbott, strongly outperformed the market over the quarter and outperformed by 6% over the year.

Income returns

The funds 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 funds investments to flow through to investors rather than engineering an income stream through more frequent portfolio turnover, hybrid investments or using derivatives. While the funds stable distribution trend was disrupted by the COVID-19 shutdowns, significantly impacting earnings of companies, distributions are now starting to recover. 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 Sunday, 27 March 2022 the fund paid its third quarters distribution of 1.14 cpu to investors for the 2022 financial year (FY2022), a significant improvement on the distribution from the same time last year.

Table 1 shows dividends paid by MLC IncomeBuilders larger company holdings in the financial year-to-date and how their dividend has changed compared to the same time last year. Weve shown dividends for the largest of IncomeBuilders company holdings 55% of the fund is invested in the companies below.

While some companies didnt change, or decreased, their dividends compared to this time last year, the majority have increased their dividends significantly this financial year-to-date. The fund is therefore positioned well to distribute an increase in its underlying dividend income in FY2022, assuming the economic environment doesnt change substantially.

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 FY2021
NAB	\$1.27	+323%
Westpac	\$1.18	+281%
ANZ	\$1.42	+306%
Telstra	\$0.03	No change
Coles	\$0.28	No change
BHP	\$2.72	+263%
CBA	\$2.00	+104%
Woodside Petroleum	\$0.41	+14%
Suncorp	\$0.08	-20%
Tabcorp	\$0.07	-36%

Fund Snapshot

MLC Wholesale IncomeBuilder



Source: 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 FY2021 and the previous seven years for comparison.

Table 2: MLC Wholesale IncomeBuilder distributions history

Financial year ending 30 June	2020/21	2019/20	2018/19	2017/18	2016/17	2015/16	2014/15	2013/14
Total underlying income distribution* (cpu)	3.49	6.76	8.05	7.39	7.56	7.87	8.17	7.72
Capital gains (cpu)**	2.80	2.13	7.99	2.50	5.87	3.93	10.81	3.27
Total distributions (cpu)	6.29	8.89	16.04	9.89	13.43	11.80	18.98	10.99
Franking level	70%	79%	62%	82%	75%	86%	62%	86%

* 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 FY2021, the funds:

total distribution was moderately lower than FY2020 due to a decrease in the funds underlying income, comprising dividends, Real Estate Investment Trust (REIT) income, interest and other income.

underlying income was mostly franked dividends which provide investors with a tax-efficient income stream.

capital gains were marginally higher than the prior years. Approximately half of the capital gains were concessional capital gains and therefore not tax-assessable for individuals, and a third were not tax-assessable for superannuation fund investors. The remainder of the distributed capital gains was taxed at the investors marginal tax rate.

Outlook

Its clear the outlook for corporate earnings, and the funds ability to generate a growing income stream each year, has improved compared to the same time last year.

We believe the fund is well placed to access the recovery in dividends and resume annual distribution growth with tax benefits due to the experience and research skills of Maple-Brown Abbott and Antares Equities. The active investment style and deep company research practiced by both managers will help position the funds 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 funds holdings, which you may find interesting:

We view all the general insurers as well placed, with revenues (premium) growing and costs (claims) falling in some lines due to COVID (for example, lower motor claims due to reduced driving in lockdown areas). Together with the prospect of interest rates finally rising, the outlook for the industry looks reasonably robust. We took the opportunity of significant weakness in the **IAG** share price in recent quarters to initiate a position in the portfolio. IAG has had a difficult few years and has underperformed the market by over 50%. Some of this is self-inflicted with a much larger Business Interruption exposure than the other insurers (which resulted in a ~ \$1 billion capital raising last year) and an unfortunate exposure to the Greensill collapse (although IAG claims it has no net exposure due to re-insurance). As a result of these own goals, IAG has been de-rated and now offers a normalised yield, including franking, of above 6% which looks attractive in the current market.

Fund Snapshot

MLC Wholesale IncomeBuilder



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.

Market Commentary

Asset class returns to 30 April 2022

Asset class	Calendar year-to-date	1 Month	3 Months	1 Year
Australian shares	1.4%	-0.9%	8.2%	10.2%
Global shares (hedged)	-11.6%	-6.9%	-7.3%	-3.1%
Global shares (unhedged)	-10.9%	-2.8%	-9.2%	2.8%
Emerging markets (unhedged)	-10.1%	-0.2%	-11.2%	-11.2%
Australian property securities	-6.1%	0.7%	3.7%	16.4%
Global property securities (hedged)	-7.4%	-4.0%	-2.0%	5.0%
Global listed infrastructure (hedged)	0.9%	-2.2%	3.7%	8.8%
Australian bonds	-7.3%	-1.5%	-6.3%	-7.5%
Global bonds (hedged)	-7.7%	-2.9%	-6.2%	-7.0%
Global high yield bonds (hedged)	0.1%	0.2%	-0.2%	2.7%
Australian inflation-linked bonds	-4.5%	-0.9%	-3.9%	-3.2%
Cash	0.0%	0.0%	0.0%	0.0%
AUD/USD	-2.3%	-5.4%	0.9%	-8.0%

Index data sources: Australian shares - S&P/ASX 200 Total Return Index; Global shares (hedged) - MSCI All Countries World (A\$ hedged) ; Global shares (unhedged) - MSCI All Countries World; Emerging markets - MSCI Emerging Markets; Australian property securities - S&P/ASX 300 LPT Accumulation Index; Global property securities - FTSE EPRA/NAREIT Developed (A\$ hedged); Global listed infrastructure (hedged) - FTSE Global Core Infrastructure 50/50 (Hedged \$A); Australian bonds - Bloomberg AusBond Composite 0+ Yr Index; Global bonds (A\$ hedged) - BCGA Global Agg (A\$ hedged); Global high yield bonds (A\$ hedged) - Composite of BCGA US Corp HY BB/B (A\$ hedged) & S&P LSTA BB/B Leveraged Loan Index; Australian inflation-linked bonds - Bloomberg AusBond Inflation Government 0+ Yr Index; Cash - Bloomberg AusBond Bank Bill Index, WM/Reuters Daily (4pm GMT).

Global

Global shares (unhedged) delivered a disappointing return of -9.2% for the three months to April 2022. Investors were initially concerned about persistent inflation pressures, rising bond yields and the signal from the US central bank that higher interest rates were coming in 2022. Russias invasion of Ukraine on 24 February then generated alarm in financial markets. The tragic loss of Ukrainian lives, the traumatic flight to safety westwards and Russian President Vladimir Putins decision to place nuclear forces on high alert cast a troubling shadow across Europe.

Wall Street made a sharp retreat from record highs set in early January. Inflation concerns dominated with US consumer price annual inflation reaching 8.5% in March. This is the highest inflation since 1981. US government bond yields rose sharply in response to these inflation risks, thereby denting investors previous optimism. The US Federal Reserve (Fed) responded by raising US interest rates by 0.25% in March and then signaling a further 0.5% increase was likely in May.

European shares also fell sharply in response to inflation concerns as well as the Ukraine crisis. The German DAX share index delivered a disappointing -8.9% return. Frances CAC was marginally more resilient with a decline of -6% with President Macron being re-elected.

Asian share markets also delivered very weak returns for the past three months. The MSCI China Index slumped by 14.2% (in local currency terms) given concerns over China's economic slowdown and the continued financial weakness of property development companies such as Evergrande. Japanese shares were a positive surprise with the Nikkei up 0.3% given the benefit of a sharply weaker currency.

Global bonds (hedged) delivered a weak -6.2% return for the quarter. Government bond yields have climbed as persistent inflation pressures is seeing central banks signal higher cash interest rates are likely.

Fund Snapshot

MLC Wholesale IncomeBuilder



Global high yield bonds (hedged) delivered a modestly negative -0.2% return. Investors have become cautious given rising inflation and weaker share markets.

Australia

Australian shares have been remarkably resilient to the global political and inflation concerns. For the three months to April, Australian shares delivered an exceptionally strong 8.2% return. The Energy sector led the market with an extraordinary 22.2% gain as oil and gas prices surged in response to the Ukrainian conflict. Utilities also made extraordinary gains with a 21.6% return. The Resources sector made very strong gains (12%) with higher iron ore and metal prices. However, there was a disappointing return from the Information Technology (-5.2%) and Consumer Discretionary (-4.1%) sectors which struggled with rising bond yields and a more cautious assessment by investors.

Australia's economy appears to be improving judging by recent solid gains in business surveys, employment and spending. Yet surveys also show a more cautious consumer which appears due to rising inflation pressures.

Looking forward

Global economic activity was showing more promising signs entering 2022 given low interest rates and the virus threat moderating. However the troubling trio of rising inflation, higher interest rates and the conflict in Ukraine is now providing a more challenging investing climate. Investors face a difficult task in assessing these considerable inflation, interest rate and political risks this year.

Information in this report is general in nature and does not take into account your objectives, financial situation or needs. Before acting on the information you should consider whether it is appropriate to your situation. You should consider the relevant Product Disclosure Statement and/or Financial Services Guide before making a decision about the product. You should consider obtaining financial advice before making any decisions based on this information. 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. Please also see [Website Disclaimer](#).

MLC Investments Limited (ABN 30 002 641 661 AFSL 230705) is the issuer or operator of:

MLC Investment Trust, MLC MasterKey Investment Service, MLC MasterKey Investment Service Fundamentals, MLC MasterKey Unit Trust, MLC Investments Limited also trades as MLC Private Investment Consulting.

NULIS Nominees (Australia) Limited (ABN 80 008 515 633 AFSL 236465) is the trustee of the:

- MLC Superannuation Fund ABN 40 022 701 955 and is the issuer of MLC Wrap Super Series 2 and MLC Navigator Retirement Plan Series 2;
- MLC Super Fund ABN 70 732 426 024 and is the issuer of MLC MasterKey Business Super (including MLC MasterKey Personal Super), MLC MasterKey Super Fundamentals, MLC MasterKey Pension Fundamentals, MLC MasterKey Pension Fundamentals (Pre-Retirement), MLC MasterKey Term Allocated Pension.

Navigator Australia Limited (ABN 45 006 302 987 AFSL 236466) is the issuer of:

- MLC Wrap Investments Series 2 and MLC Navigator Investment Plan Series 2 as Investor Directed Portfolio Services Operator; and
- Separately Managed Accounts as the responsible entity.

© You are only authorised to use the data and content for the purpose of research, validation and monitoring of your personal investments. You may not redistribute the data and content to any other person under any circumstances.

2021 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or regulated financial advice under New Zealand law has been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. For more information refer to our Financial Services Guide (AU) and Financial Advice Provider Disclosure Statement (NZ) at www.morningstar.com.au/s/fsg.pdf and www.morningstar.com.au/s/fapds.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Past performance does not necessarily indicate a financial products future performance. To obtain advice tailored to your situation, contact a professional financial adviser. Some material is copyright and published under licence from ASX Operations Pty Ltd ACN 004 523 782.