



MLC Distributions Update – March 2010

The following table outlines the cents per unit (cpu) distributions paid for the March 2010 quarter for each of the MLC Wholesale funds (including MLC MasterKey Investment Service and MLC MasterKey Investment Service Fundamentals investments in the MLC Wholesale funds).

MLC Wholesale Fund	Mar 10 Quarter cpu	Dec 09 Quarter cpu	Mar 09 Quarter cpu
MLC Horizon 1 – Bond Portfolio	0.51	0.79	0.62
MLC Horizon 2 – Income Portfolio	0.55	0.76	0.66
MLC Horizon 3 – Conservative Growth Portfolio	0.35	0.52	0.45
MLC Horizon 4 – Balanced Portfolio	0.30	0.35	0.37
MLC Horizon 5 – Growth Portfolio	0.24	0.30	0.32
MLC Horizon 6 – Share Portfolio ¹	-	-	-
MLC Horizon 7 – Accelerated Growth Portfolio ¹	-	-	-
MLC Long-Term Absolute Return Portfolio Class A ¹	-	-	-
MLC Long-Term Absolute Return Portfolio Class B ¹	-	-	-
MLC Australian Share Fund	0.43	0.82	0.66
MLC Australian Share Value Style Fund	0.51	0.77	0.98
MLC Australian Share Growth Style Fund	0.31	0.84	0.26
MLC IncomeBuilder™	1.10	1.56	1.60
MLC Global Share Fund ¹	-	-	-
MLC Hedged Global Share Fund Class A ¹	-	-	-
MLC Hedged Global Share Fund Class B ¹	-	-	-
MLC Global Share Value Style Fund ¹	-	-	-
MLC Global Share Growth Style Fund ¹	-	-	-
MLC Property Securities Fund	0.61	0.25	0.00
MLC Global Property Fund Class A	0.00	0.00	0.05
MLC Global Property Fund Class B	0.00	0.00	0.00
MLC Diversified Debt Fund Class A	0.69	0.39	0.47
MLC Diversified Debt Fund Class B	0.45	0.17	0.29
MLC Platinum Global Fund ¹	-	-	-
MLC-Capital International Global Share Fund ¹	-	-	-

¹ These investment options only distribute at the end of the financial year in June 2010.



MLC Wholesale MLC MasterKey Investment Service Fundamentals (MKISF)

Individual Fund Commentaries:

MLC Horizon Series

MLC Horizon 1 – Bond Portfolio

The portfolio delivered a quarterly distribution of 0.51 cpu, a reduction when compared to last quarter. The distribution comprised interest earned on the portfolios' investments in cash (approximately 30% of the portfolio) and the more highly rated Australian and global bonds. When compared to the distribution in March 2009, income received from cash is lower as the Reserve Bank of Australia (until recently) slashed cash rates throughout much of 2009.

MLC Horizon 2 – Income Portfolio

The majority of the quarterly distribution of 0.55 cpu was comprised of interest earned from the allocation to Australian and global bonds, and cash (approximately 70% of the portfolio). The allocation to listed property securities (approximately 13% of the portfolio) was also a contributor to the distribution. However, the distribution is still lower compared to the same time last year due mainly to the lower interest earned on debt securities through much of 2009, lower distributions from listed property trusts and also lower dividends from Australian shares. Most companies are still wary of the current economic conditions and are hesitant to increase dividends too early, should the economic recovery prove to be unsustainable.

MLC Horizon 3 – Conservative Growth Portfolio

The majority of the quarterly distribution of 0.35 cpu was comprised of interest earned from the allocation to Australian and global bonds (approximately 50% of the portfolio). The 21% allocation to Australian shares was also a contributor. The lower distribution compared to the previous year's corresponding quarter reflects lower dividends from shares and interest received from bonds versus those that were realised last year.

MLC Horizon 4 – Balanced Portfolio

The quarterly distribution of 0.30 cpu comprised interest earned on the portfolio's investments in bonds (approximately 30% of the portfolio) and dividends from Australian shares (approximately 31% of the portfolio). The relatively lower distribution (versus last year's) reflects lower company dividends and interest received from the bond strategies. Any income received from global shares (approximately 32% of the portfolio), after adjusting for the currency impacts from hedging, are held until the end of the year and are therefore not included in inter-year distributions.



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MLC Horizon 5 – Growth Portfolio

The 0.24 cpu distribution is lower than last year's due to lower company dividends received from Australian shares (approximately 35% of the portfolio). This reflects the decision by many companies to reduce dividend payouts in response to the uncertain economic conditions of the last 1-2 years. Interest earned on the portfolios' investments in bonds (approximately 15% of the portfolio) was a relatively smaller contributor to the distribution, as was the small portion from tax deferred income. The portfolio's higher allocation to global shares (approximately 44% of the portfolio) has also contributed to the lower distribution profile during the year. Note that any income from global shares that is to be paid at the end of the year will be after adjusting for the currency impacts from hedging.

MLC Horizon 6 – Share Portfolio

This portfolio only distributes at the end of the financial year in June.

MLC Horizon 7 – Accelerated Growth Portfolio

This portfolio only distributes at the end of the financial year in June.

MLC Long-Term Absolute Return Portfolio (Class A and B)

This portfolio only distributes at the end of the financial year in June.

Australian Shares

MLC Australian Share Fund

Lower company dividends continue to impact distributions with the latest quarter 0.43 cpu result significantly below the same quarter last year. While distributions in this quarter tend to be lower due to the timing of many companies' dividend payments for the half year period concluding on 31 December, the decision by many companies to cut their dividends in the last 1-2 years continues to impact the Fund's distributions.

MLC Australian Share Growth Style Fund

Due to the Fund's deliberate bias to companies with growth characteristics, the distribution profile of the Fund may vary to those of other Australian shares oriented funds. This quarter saw companies with value characteristics provide higher dividends than growth style companies within the Fund. In addition, company dividends continue to be impacted by difficult and uncertain economic conditions.

MLC Australian Share Value Style Fund

Due to the Fund's deliberate bias to companies with value characteristics, the distribution profile of the Fund may vary to those of other Australian shares oriented funds. While value companies tend to have a relatively higher dividend yield versus market, value companies have also been impacted by the uncertain economic conditions and have reacted by reducing dividends paid.



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This has caused the latest quarter distribution to lag that of the same quarter last year.

MLC IncomeBuilder™

Lower company dividends are still causing Fund distributions to lag those that were declared a year ago. The latest quarter distribution of 1.10 cpu is consistent with this trend. In the 12 month period to 31 March 2010, the underlying income paid by the Fund is down 30% when compared to the corresponding 12 month period ending March 2009. While this decline is not ideal, it is consistent with a general trend in the market where companies are preserving capital by lowering dividends in response to uncertain economic conditions.

Global Shares

MLC Global Share Fund

This Fund only distributes at the end of the financial year in June.

MLC Global Share Growth Style Fund

This Fund only distributes at the end of the financial year in June.

MLC Global Share Value Style Fund

This Fund only distributes at the end of the financial year in June.

Property Securities

MLC Property Securities Fund

Even though this quarter's distribution of 0.61 cpu is higher than the same time last year, the relatively low distribution is still consistent with the decision by many property trusts to reduce, or in some cases, suspend distributions to underpin their financial survival and strengthen their balance sheets. This is reflected in reduced income being paid to Fund investors. However, there is evidence that the distribution profile of the sector has stabilised.

MLC Global Property Fund (Class A and B)

The Fund did not distribute this quarter as the interest and dividends received from the Fund's investments were not sufficient to offset the Fund's expenses. As in the Australian listed property sector, dividend payments from global property securities are also down from previous years in order to preserve capital and re-build balance sheets. This is translating to lower distribution income.



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Debt

MLC Diversified Debt Fund (Class A and B)

The quarterly distribution of 0.69 cpu (Class A) and 0.45 cpu (Class B) has improved from last quarter and the same quarter last year. This is mainly due to higher interest income received from the portfolio's investments in highly rated Australian and global nominal bonds. The recent strategy changes in February within the fund resulted in additional income flowing through this quarter from trust restructures.



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This Q&A may answer some of your questions about distributions for MLC Wholesale and MLC MasterKey Investment Service Fundamentals investment options and why they've been reduced this quarter.

Q. What are distributions dependent on?

A. Distributions are made up of income received from the underlying investments held by the managed fund and are paid to investors once fees are deducted. These investments could be shares, property, debt securities and/or cash. As such, the distribution could include interest earned, franked and unfranked dividends, tax deferred income, rental income, and any realised capital gains (after offsetting any capital losses) made from selling investments that typically occur in the last quarter of the financial year. Currency can also impact income distributions on investments.

Q. Why do distributions continue to be low for many funds in the March quarter?

A. Distributions for investors dropped significantly in many funds during the global financial crisis and continue to be low because challenging economic conditions globally are resulting in:

- o lower company earnings. This means funds which invest in shares have received lower dividends, so there's less to distribute to investors;
- o lower rates of interest on cash investments, and
- o a decline in the value of the Australian dollar in 2008. Funds that invest overseas and hedge currency exposure to the Australian dollar suffered currency losses. Recent gains in the Australian dollar have helped to reduce these losses (this only impacts global property and global debt for the quarter as global shares distribute income at the end of the financial year).

Q. Why are company dividend levels so low?

A. Lower company dividends could be a result of a number of factors including pressure on profit margins, poor sales and the need for companies to fund their businesses by retaining profits. Companies may choose not to pay dividends as it's cheaper for them to keep any profits, rather than raise money by borrowing. It's worth noting that even though equity markets have rebounded significantly, company earnings are still lagging behind. This reduction in company earnings along with the desire of many companies to continue with capital preservation strategies until there is more certainty on the economic outlook has resulted in lower dividends to investors.

Q. What about the recent market recovery?

A. The market has been improving since March 2009 with the Australian dollar strengthening against most major currencies. Because of this, funds with investments overseas that hedge currency exposure, such as hedged global shares, global property and global debt securities have made recent gains from Australian dollar hedging contracts. Overall however, many companies are still wary of the economic outlook, and therefore continue to preserve capital and maintain more conservative dividend payout ratios.



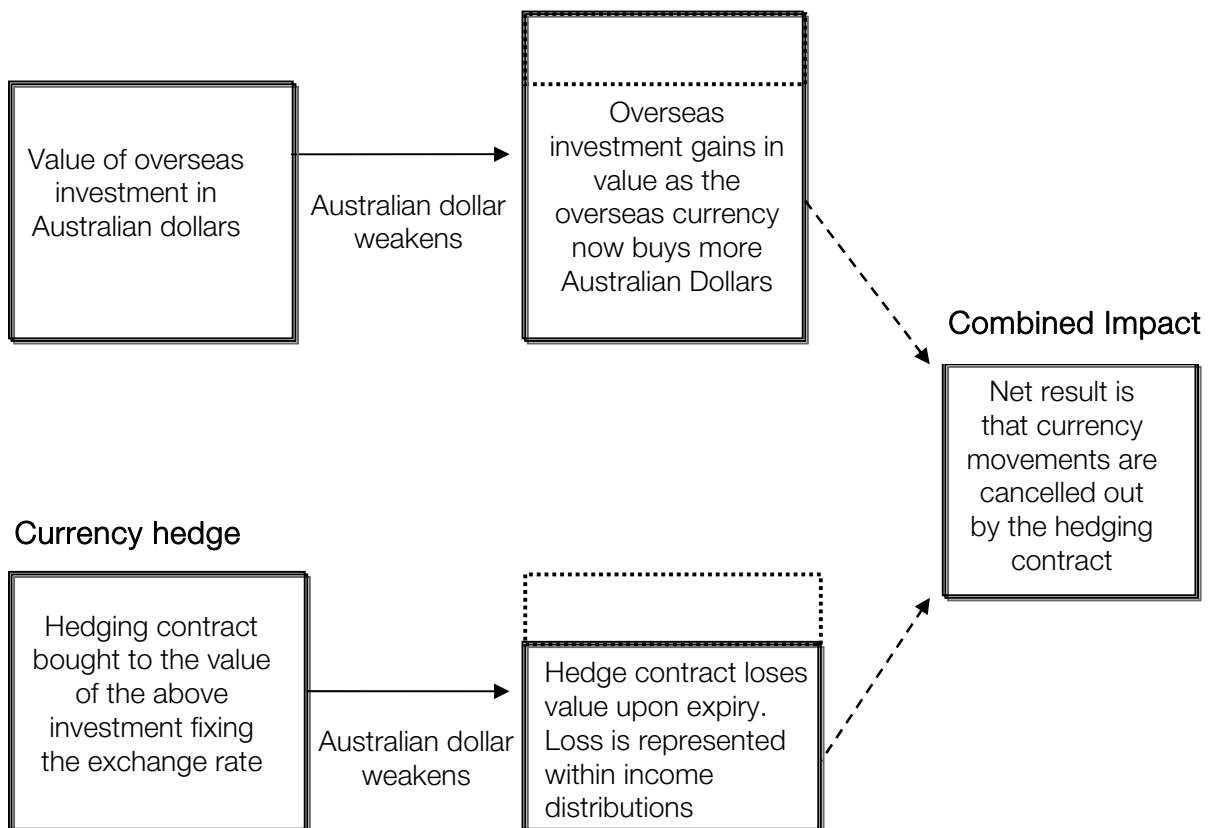
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Q. How does currency hedging provide protection from currency movements?

A. If you invest in funds that own non-Australian securities such as global shares, listed property and bonds, you'll be exposed to the impact of currency fluctuations on both your income and capital. This can impact the return you receive, both positively and negatively, depending on what currency exposure you have. Funds that have a currency hedging strategy help manage the impact of currency movements on your global exposures to smooth out the overall return on your investment, which includes distributions and capital growth.

When hedging your exposure to global investments, the intent is to remove the effect of currency losses and gains from your global exposures so returns are based on the performance of the underlying investment only. The example below explains how the hedging contract largely removes the impact of currency when the Australian dollar depreciates or weakens in value.²

Underlying investment



² In practice, the value of the hedging contract may differ slightly from the underlying investment value so the investment may not be 100% hedged at all times.



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When the Australian dollar rises, as we've seen recently, the reverse occurs. The value of unhedged global assets held by Australian investors fall, but the value of the sold hedge contract rises. This increase in the hedge contract value compensates for the fall in value of the unhedged non-Australian assets.

The total return you receive is therefore only dependant on the performance of the underlying investments.

Q. How does currency hedging then impact income distributions?

A. Currency hedging can help smooth the impact of foreign currency fluctuations on an investor's total return. At MLC, the length of the hedging contract can vary and typically will last for three months. Any hedging gains or losses the fund realises when the hedging contract expires impact the income distributions for investors. Hedging gains or losses are treated as income and used to offset against other sources of income such as interest.

In 2008, we saw the Australian dollar fall quite dramatically through the year against major currencies. The Australian dollar fell sharply against the US dollar from highs above 98c to lows around 60c between July and October 2008, representing a decline in value of 40%. When the Australian dollar falls in value, the value of unhedged global assets owned by an Australian investor will increase in value. However, this also results in a loss on the sold hedge contract. Funds that used hedge contracts to hedge the Australian dollar therefore suffered losses on these contracts during that period.

Gains in the Australian dollar throughout 2009 have helped reduce these losses from hedging contracts for the financial year ending June 2010.

Q. How long will lower distributions last?

A. We are confident that as the economy, locally and globally, continues to recover, so will company earnings, the dividends they pay and, ultimately, investor's distributions. However, a recovery to previous levels of distributions will take time to return, as funds that have hedged currency exposure to the Australian dollar still have currency losses on those contracts carried over from last year.

More Q&As are available on the [Market Watch](#) website to answer any general questions you may have on distributions.



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