

The story of income growth

MLC IncomeBuilder™



Important information

Any advice in this communication has been prepared without taking account of your objectives, financial situation or needs. Because of this you should, before acting on any advice in this communication, consider whether it is appropriate to your objectives, financial situation and needs.

You should obtain a Product Disclosure Statement or other disclosure document relating to MLC IncomeBuilder™ issued by either MLC Investments Limited (ABN 30 002 641, AFSL 230705) or MLC Nominees Pty Limited (ABN 44 928 361 101, SFN 281440944) and consider it before making any decision about whether to acquire or continue to hold the product.

A copy of the Product Disclosure Statement or other disclosure document is available upon request by phoning MLC on **132 652** or on our website at **mlc.com.au**

An investment in MLC IncomeBuilder™ does not represent a deposit with or a liability of National Australia Bank Limited nor any of its related bodies corporate and is subject to investment risk including possible delays in repayment and loss of income and capital invested.

Share in the wealth you contribute to

Every day, you come into contact with companies that are creating wealth for their shareholders.

Are you getting your share?

A regular shopping trip

Think about the last time you did the grocery shopping. You probably went to the local shopping centre (Westfield Group) and filled a trolley at the supermarket (Woolworths).

Perhaps you bought a jar of SPC jam (Coca-Cola Amatil Limited) with the rest of your groceries.

At the checkout, you flicked through a few magazines (News Corp.) and ended up buying a 'worst dressed' issue against your better judgement. You probably paid for it all on your credit card (National Australia Bank).

On the way back to the car, you stopped off at the electrical store (Harvey Norman) and looked at a new fridge.

Finally, you picked up a bottle of red (Lion Nathan) and headed home for a quiet night in front of the telly (Seven Network).

MLC IncomeBuilder™ held shares in all of these Australian companies as at 31 December 2008.

Why you need to invest in shares

Share in the wealth

Over the long term, quality companies create wealth for their shareholders. If you invest in companies whose products you use everyday, you're getting your share.

Generate tax-effective income

Through dividend imputation, investing in shares offers tax advantages you just can't get from any other investment.

Achieve your financial goals

Share prices can be volatile, but investing in less volatile investments, such as cash and term deposits, could put your long-term financial goals at risk.

Things you should consider

Risk; are shares safer than cash?

Global Financial Crisis! Global Recovery! Bull/Bear Market! The media loves to run with these headlines. But all they're really saying is the sharemarket is volatile in the short term; nothing new there.

However, the story is very different if you take a long-term view.

In fact, over the long-term, investing in shares might actually be safer than leaving your money in the bank.

It all depends on how you view risk.

With some investments, such as shares, a major concern is your investment could fall in value in the short-term.

With others, such as cash, the lesser known risk is that your investment might not earn enough or grow enough in value over the long-term.

This means you could be putting your long-term lifestyle and financial goals at risk.

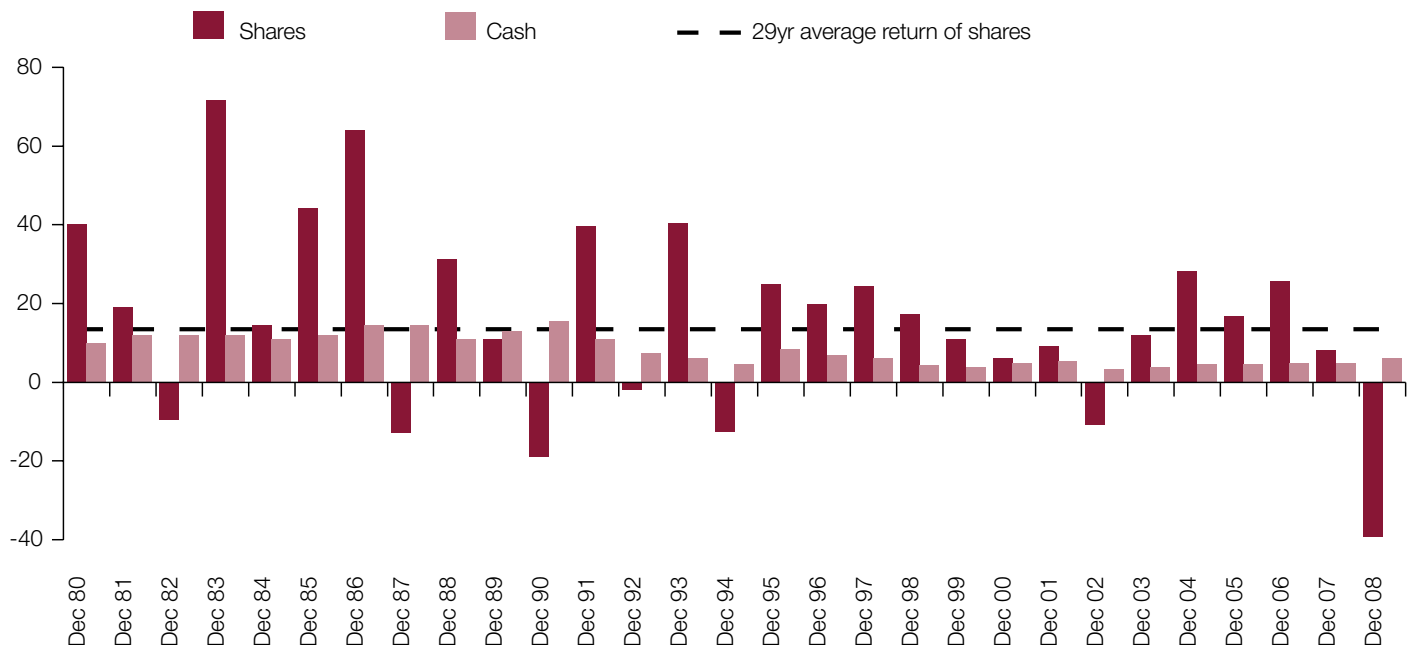
Shares vs Cash

In the last 29 years, the Australian industrial sharemarket has ended the year 'in the red' seven times.

But focusing on those seven negative years obscures the fact that we've enjoyed 22 good years over the same period.

In the table below the dotted black line shows the average annual return of the sharemarket over the last 29 years.

Shares vs Cash over the last 29 years



Source: S&P/ASX 200 Industrials Accumulation Index (All Industrials Index prior to 6 April 2000), RBA 12 month fixed deposit rate (\$5,000 to \$100,000).

Past performance is not indicative of future performance.

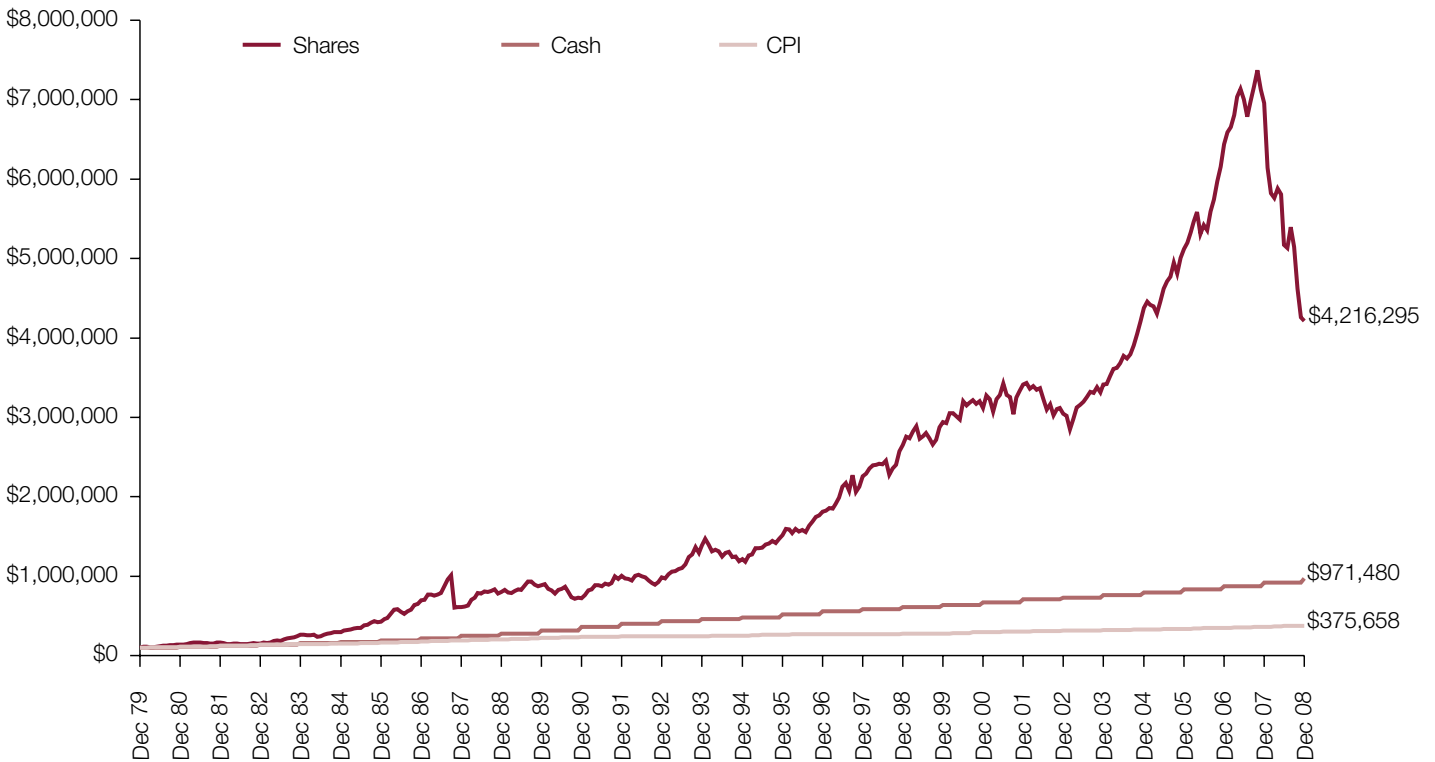
Inflation; the cruellest cut

Another thing you should consider when investing is the risk of inflation eating away at your investment returns. The graph below compares the long-term value of shares with cash, taking inflation into account.

As you can see, inflation reduced the real return on a cash investment by over 30%. Compare this to the impact of inflation on an investment in shares; over the same period, inflation only reduced the real return on an investment in shares by 8%.

Value of \$100,000 invested in December 1979.

All income reinvested



Source: S&P/ASX 200 Industrials Accumulation Index (All Industrials Index prior to 6 April 2000), RBA 12 month fixed deposit rate (\$5,000 to \$100,000), Consumer Price Inflation Index.

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The MLC IncomeBuilder™ investment style

When people talk about the volatility of the sharemarket, they're talking about the movement in share prices.

But the share price is only one way to look at the value of owning shares. Investing in shares can also produce an income, as many companies pay dividends each year.

As an investor, you can spend the income from dividends or you can reinvest it.

Income from shares

Income from Australian shares has tended to grow in a far more predictable way than actual share prices.

Unlike many other funds and fund managers, MLC IncomeBuilder™ chooses companies likely to generate a growing dividend stream over time.

If the income from those shares continues to grow, the share price will often look after itself.

Growth from shares

Shares can provide capital growth over the long-term as the share price increases. However, shares can also provide financial growth in other forms.

While companies distribute profits as dividends, many will retain some of their profits to fund future expansion or possible acquisitions.

If the company is successful, ultimately shareholders benefit in the form of higher profits, more income and an increase in the share price of their companies.

These are the companies that MLC IncomeBuilder™ looks to invest in.

The MLC IncomeBuilder™ investment style

Invest in profitable companies

Instead of focusing on movements in share prices, MLC IncomeBuilder™ invests primarily in dividend-focused shares.

Create a growing income stream

The income from shares has tended to grow in a far more predictable way than share prices, and MLC IncomeBuilder™ has delivered a consistent dividend stream.

Low turnover means greater tax efficiency

MLC IncomeBuilder™ typically holds stocks for a longer period than other share funds, keeping transaction costs to a minimum and reducing the tax liability for investors.

Growing income: a case study

Investing in companies that focus on growing their dividends is an effective wealth building strategy

Let's assume that today a company with \$100 worth of assets consistently pays an annual return of 10%.

The company distributes half of its profits as dividends to investors, and reinvests the rest to increase its assets.

In year one, the company generates a profit of \$10 (10% of \$100 assets), half of which (\$5) is paid to investors as dividends, while the other half is reinvested back into the company.

In year two, the company starts the year with total assets of \$105.

Assuming the company continues to generate a 10% return on its assets, a profit of \$10.50 is generated in the second year.

The company distributes half of that amount (\$5.25) to investors as dividends, while the other half is reinvested.

Year three then starts with total assets of \$110.25.

As you can see from the table below, the reinvestment of half of each year's profit (at a consistent rate of 10% pa) back into itself for a period of 10 years, will increase the company's assets by more than 50%.

Investors will also see their dividends increase by more than 50%.

While the share price of a company might fluctuate daily, growth in assets generates value for investors over the long-term.

Low turnover means greater tax efficiency

MLC IncomeBuilder™ is different to other share funds as it tends to hold stocks over longer periods of time.

This strategy helps to keep transaction costs to a minimum and reduce the tax liability for investors on realised capital gains.

Our Investment Management team monitors the appointed managers for MLC IncomeBuilder™ (see page 14), to ensure they manage money according to the objectives of MLC IncomeBuilder™.

Business model

Year	Business Assets	Profit	Dividend	Retained Earnings
1	\$100.00	\$10.00	\$5.00	\$5.00
2	\$105.00	\$10.50	\$5.25	\$5.25
3	\$110.25	\$11.00	\$5.50	\$5.50
4	\$115.75	\$11.60	\$5.80	\$5.80
5	\$121.55	\$12.20	\$6.10	\$6.10
6	\$127.65	\$12.80	\$6.40	\$6.40
7	\$134.05	\$13.40	\$6.70	\$6.70
8	\$140.75	\$14.00	\$7.05	\$7.05
9	\$147.80	\$14.80	\$7.40	\$7.40
10	\$155.20	\$15.50	\$7.75	\$7.75

The story of income growth

Over time, shares can produce a steadily growing income to help you achieve your goals.

It's possible to be deceived by the relatively low income from shares when compared to the higher annual income provided by a term deposit in the first few years.

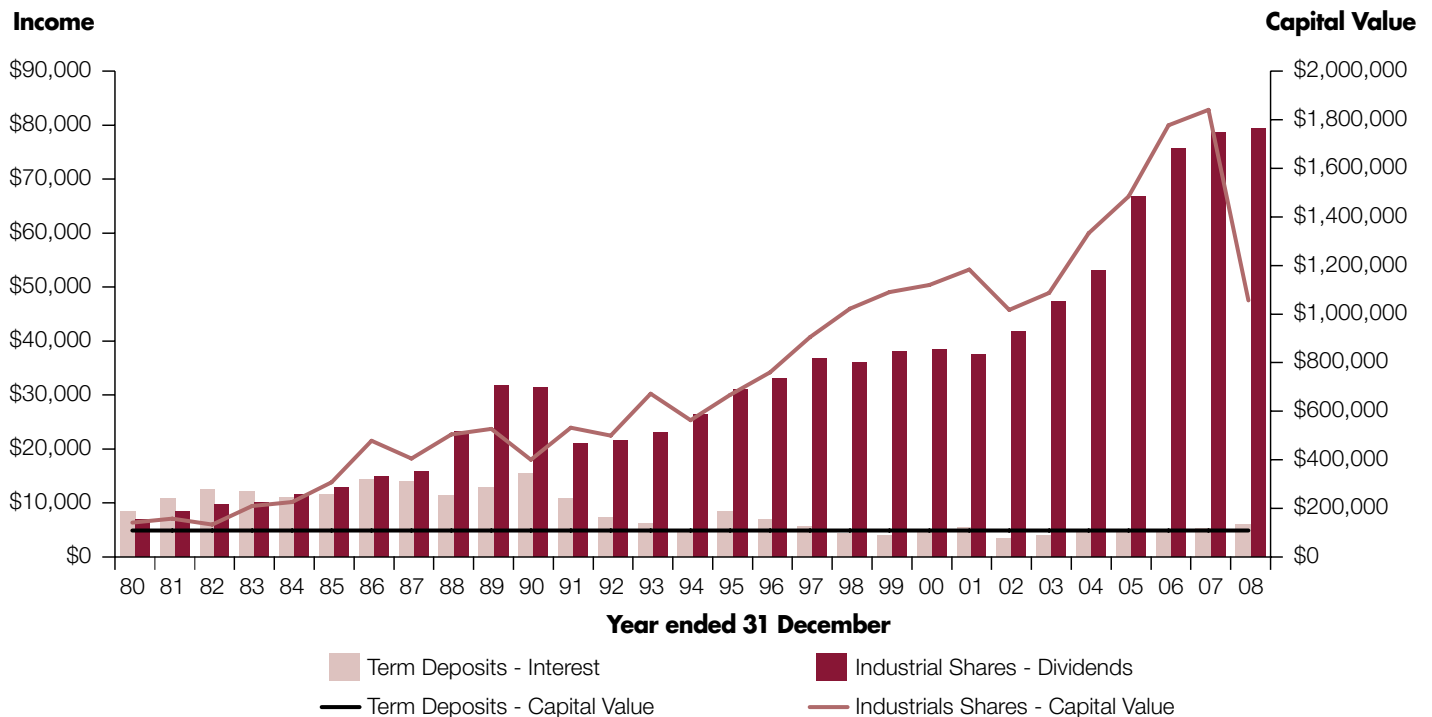
However, over the long term, the steadily growing income from shares can make term deposits look like a far riskier option.

You can see in the graph below that the capital value of an Australian industrial share portfolio has increased in value from \$100,000 to over \$1,000,000 dollars in the last 29 years.

Compare this to a term deposit where the \$100,000 remains the same after 29 years. And that's without taking into account the effect of inflation.

Shares vs Term Deposits

Annual income generated by \$100,000 invested in December 1979 to December 2008¹



Source: Shares – Represented by the S&P/ASX 200 Industrial Accumulation and Price indices (All Industrials Accumulation and Price indices prior to April 2000). Term Deposits – Represented by the Reserve Bank of Australia (RBA) 12 month Banks' Term Deposits (\$10,000), prior to January 1982, the RBA 12 month Term Deposit rate (\$5,000–\$100,000).

¹ Assuming income is not re-invested.

Past performance is not indicative of future performance.

Gearing into MLC IncomeBuilder™

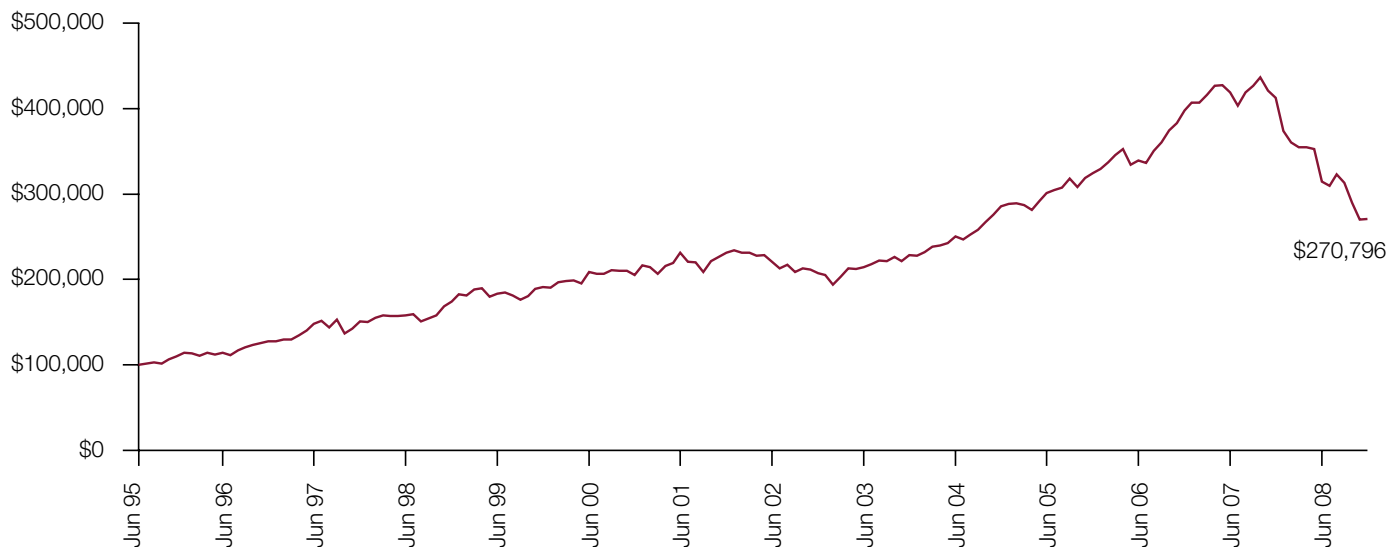
With low turnover and growing income each year, MLC IncomeBuilder™ may be a suitable fund for investors who are considering a gearing strategy to generate long-term wealth.

You can use the income from the fund to meet interest payments or to reinvest back into the fund.

Over the long-term, shares within the fund are expected to increase in value, which will provide capital growth.

Create wealth by reinvesting income

Cumulative value of \$100,000 invested in MLC IncomeBuilder™ since inception – income reinvested (July 1995 – December 2008).



Source: MLC Investments Limited. Data is based on the MLC IncomeBuilder™ Unit Trust. Historical performance is not a reliable guide to future performance. Returns are calculated on an annualised compound basis using end of month redemption prices and are net of management fees, charges, expenses and do not allow for initial/exit fees (if applicable) or policy charges. Returns are calculated in accordance with IFSA Standard No. 6.

MLC IncomeBuilder™ facts & figures

We invest in a range of successful companies to create a tax-effective income stream for you.

MLC IncomeBuilder™ is invested primarily in dividend-focused Australian industrial shares.

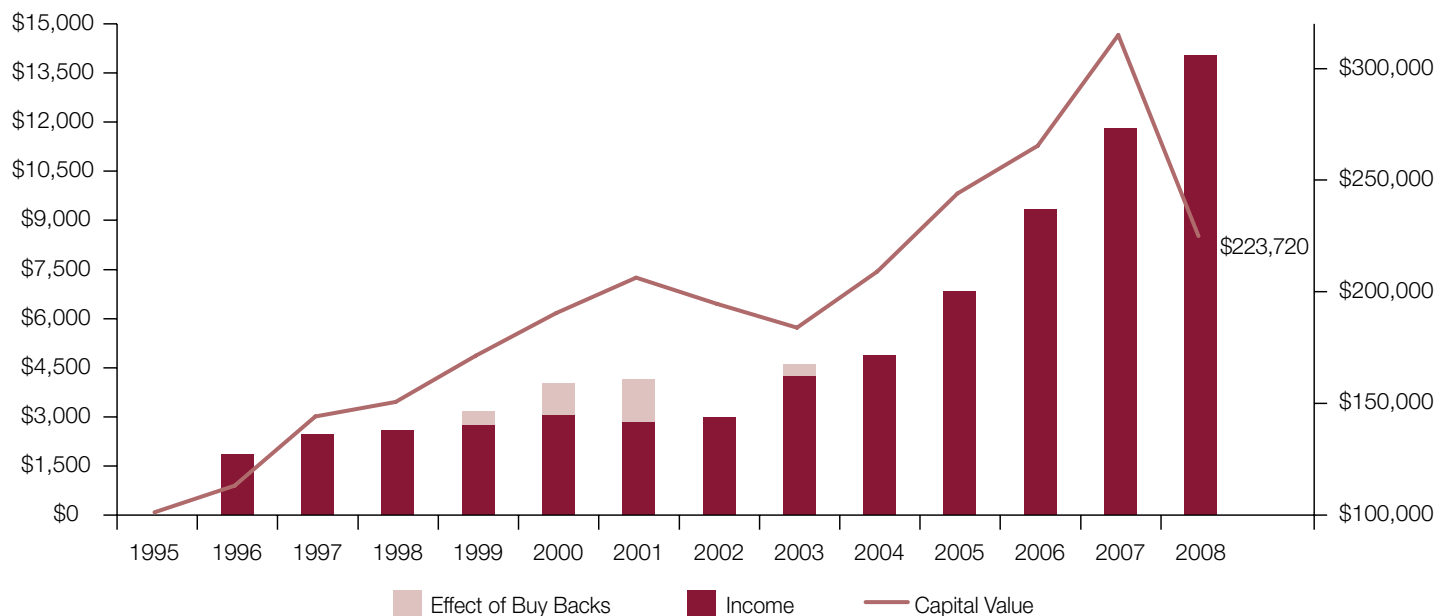
These shares have provided investors with a growing, tax-effective income stream² since 1995.

The growing income stream has also resulted in an increase in the capital value of an MLC IncomeBuilder™ investment.

Growing income stream² and rising capital value

Return on investment of \$100,000 in MLC IncomeBuilder™ (as at 30 June financial year-end).

Income



Source: MLC Investments Limited. Data is based on the MLC IncomeBuilder™ Unit Trust.

² For the years 1999, 2000, 2001 and 2003, the headline distribution rate was inflated as a result of a number of share buy-backs (for example, Commonwealth Bank, Woolworths and Lend Lease) as well as special distributions. Taking these events into consideration, the underlying distributions still grew in line with the goals of MLC IncomeBuilder™. Historical performance is not a reliable guide to future performance. Returns are calculated on an annualised, compound basis using end of month redemption prices and are net of management fees, charges, expenses and do not allow for initial/exit fees (if applicable) or policy charges. Returns are calculated in accordance with IFSA Standard No. 6.

How it works

Dividend growth over time

The table below shows some of the stocks that MLC IncomeBuilder™ has held over the last 13 years, and how the level of dividends has increased year after year.

Calendar Year

Dividend Growth Typical MLC IncomeBuilder™ stocks

Income (\$) per annum per share (as at 31 December)													
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
NAB	0.87	0.94	1.02	1.12	1.23	1.35	1.47	1.63	1.66	1.66	1.67	1.82	1.94
Woolworths	0.15	0.02	0.17	0.18	0.23	0.27	0.33	0.39	0.45	0.51	0.59	0.74	0.92
ANZ	0.42	0.48	0.52	0.56	0.64	0.73	0.85	0.95	1.01	1.10	1.25	1.36	1.36
Tabcorp	0.18	0.22	0.26	0.43	0.47	0.51	0.63	0.67	0.71	0.81	0.89	0.94	0.94
Commonwealth Bank	0.90	1.02	1.04	1.15	1.30	1.36	1.50	1.54	1.83	1.97	2.24	2.56	2.66
Combined Income	2.52	2.676	3.01	3.44	3.87	4.22	4.78	5.18	5.66	6.05	6.64	7.42	7.82

Case study: NAB shares³

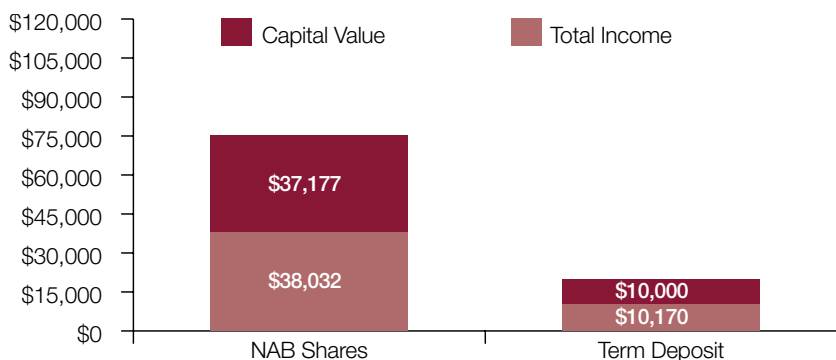
NAB shares are a good example of the type of investment MLC IncomeBuilder™ seeks to hold. NAB has a history of paying out part of its profit as dividends, and retaining the rest to reinvest in the company for the future. This helps grow the share value and dividends.

Over the past 18 years, a \$10,000 investment in NAB shares would have grown to be worth \$37,177. The same \$10,000 invested in 1990 would also have generated more than \$3,455 in tax-effective income in 2008 alone.

Compare that to a term deposit, where all you'd be getting back is the original \$10,000 (worth a lot less now than it was in 1990), plus about \$590 in income last year (fully taxable).

Shares in a bank vs money in a bank account

\$10,000 invested 31 December 1990



Source: MLC Investments Limited.

³ The returns for NAB shares are historical and not indicative of future performance.

Where is MLC IncomeBuilder™ invested?

**Minimise
volatility
and achieve
more consistent
returns.**

MLC IncomeBuilder™ is diversified across different sectors

The Australian share market is made up of different sectors such as banking and finance, media, telecommunications and transport. Companies and their sectors can perform differently at various stages of the economic cycle.

By Company

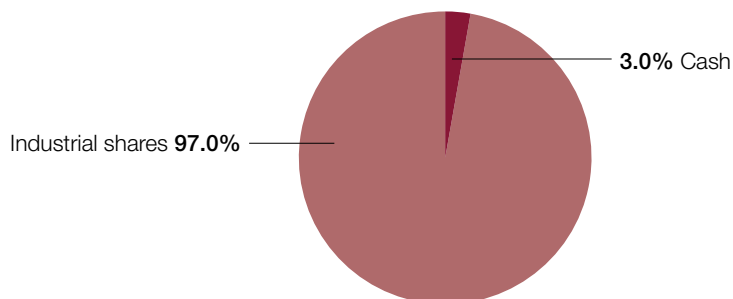
Top 10 largest equity holdings			
1	Telstra	Telecommunication Services	9.2%
2	NAB	Financial Ex Property Trusts	8.6%
3	Westpac	Financial Ex Property Trusts	7.5%
4	ANZ	Financial Ex Property Trusts	6.5%
5	Foster's Group	Consumer Staples	4.6%
6	Commonwealth Bank	Financial Ex Property Trusts	4.4%
7	Brambles	Industrials	4.0%
8	Woolworths	Consumer Staples	3.7%
9	Westfield Group	Listed Property Trusts	3.5%
10	Coca-Cola Amatil	Consumer Staples	2.9%

Source

MLC Investments Limited as at 31 December 2008

By investing in a range of companies from different sectors, MLC IncomeBuilder™ aims to minimise the volatility of the overall portfolio and achieve more consistent returns.

By asset class



Source
MLC Investments Limited as at 31 December 2008

**MLC IncomeBuilder™
the strength of shares**

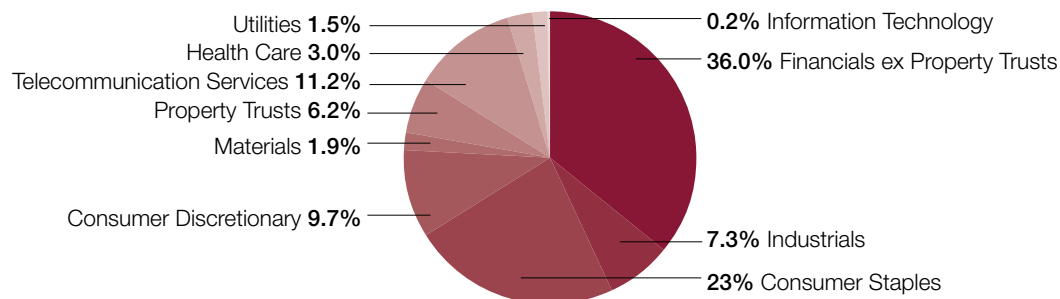
Genuine diversification

By combining investment managers with different investment styles, MLC IncomeBuilder™ holds a range of quality companies in many different industries.

Suitable for gearing

With low turnover and consistent income each year, MLC IncomeBuilder™ may be a suitable fund if you're considering a gearing strategy to create wealth over the long term.

By industry sector



Source
MLC Investments Limited as at 31 December 2008

Who manages MLC IncomeBuilder™?

We combine active and index investment managers to deliver a tax-effective income stream.

MLC IncomeBuilder™ is currently managed by two investment managers; Maple-Brown Abbott and Vanguard Investments Australia.

This combination of active and index investment managers is designed to deliver MLC IncomeBuilder's™ key investment objective; to provide investors with a growing, tax-effective income stream.

Maple-Brown Abbott



Maple-Brown Abbott Limited (MBA) manages 70% of MLC IncomeBuilder™. MBA was established in 1984 and is wholly owned by its staff. As at 31 December 2008 MBA has over \$11 billion in funds under management.

MBA uses a value-oriented investment style to identify quality undervalued Australian companies. Value is assessed and defined according to a number of criteria, including Price to Earnings, Price to Cash Flow, grossed-up dividend yield, and measures of balance sheet strength.

This approach is ideally suited to identifying companies with the potential to grow their dividends, and therefore makes MBA an ideal manager for MLC IncomeBuilder™.

MBA also assesses value on a long-term basis, and will therefore often be contrarian to other managers, purchasing stocks that are out of favour in the market, and holding them for the medium to long term until their value is recognised.

This long-term approach to investing is ideal for MLC IncomeBuilder™, as it helps to ensure any income is tax-effective, and assists with minimising realised capital gains.

Vanguard Investments Australia



Vanguard INVESTMENTS™

Vanguard Investments Australia Limited (Vanguard) manages 30% of MLC IncomeBuilder™. The company is the Australian arm of the US-based Vanguard Group, the second largest mutual fund investment manager in the US.

Vanguard is a world leader in index-based shares. Vanguard has approximately \$60 billion in funds under management as at 31 December 2008.

Vanguard passively manages a portfolio of approximately 150 stocks, aiming to replicate the S&P/ASX 200 Industrials Accumulation Index as a benchmark.

Using the S&P/ASX 200 Industrials Accumulation Index as a benchmark gives MLC IncomeBuilder™ access to a well diversified range of quality companies that are generally expected to increase their dividends over time.

This index approach also has a very low level of turnover, which reduces the impact of transaction costs and taxation, and is closely aligned to MLC IncomeBuilder's™ primary objective of delivering an increasing tax-effective income stream.

Note

The specialist investment management companies are current as at 31 December 2008. Investment managers are regularly reviewed and may be appointed or removed at any time.



MLC Investments

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