Merlon Australian Share Income Fund
Monthly Fact Sheet – August 2018
For queries, please call Adviser Services on 1800 195 853

MERLON
CAPITAL PARTNERS

| Performance [i] (%)	Month	Quarter	FYTD	Year	3 Years (p.a.)	5 Years (p.a.)	7 Years (p.a.)	10 Years (p.a.)
Fund Total Return (net of fees)	1.5	3.7	2.1	5.7	9.8	8.3	10.4	7.5
ASX200	1.7	6.5	3.1	16.8	12.9	10.4	12.0	8.3
Average Daily Exposure	69%	69%	68%	69%	69%	69%	70%	71%
Gross Distribution Yield	0.9	1.9	1.4	7.2	7.6	7.6	8.4	9.0

* Past performance is not a reliable indicator of future performance. All returns above are grossed up for franking credits. Portfolio inception date is 30/09/2005.

Monthly Performance Commentary

The ASX200 returned 1.7% for the month of August. Telecommunications were the best performers, rallying post TPG Telecom's announced merger with Vodafone. Telstra rallied 13% in response as mobile competition concerns eased. Technology and Health Care companies also performed strongly through reporting season. Resources, Energy and the Banking sectors were the main laggards for the month.

The Fund returned 1.5% for the month. The underlying share portfolio outperformed the ASX200 by 0.5%. Given the rising market the hedge overlay, which is designed to minimise the impact in periods of drawdown, was a headwind, detracting 0.7%. Key contributors for the Fund were investments in Magellan Financial, QBE Insurance, Seven West Media, Trade Me, JB Hifi, Suncorp and Wesfarmers. Having minimal exposure to Energy and Resource companies also aided relative returns. On the other side of the ledger investments in NewsCorp, Fletcher Building, Caltex and Woolworths detracted as did not owning TPG and Telstra.

Rolling Seven Year Performance History [ii]
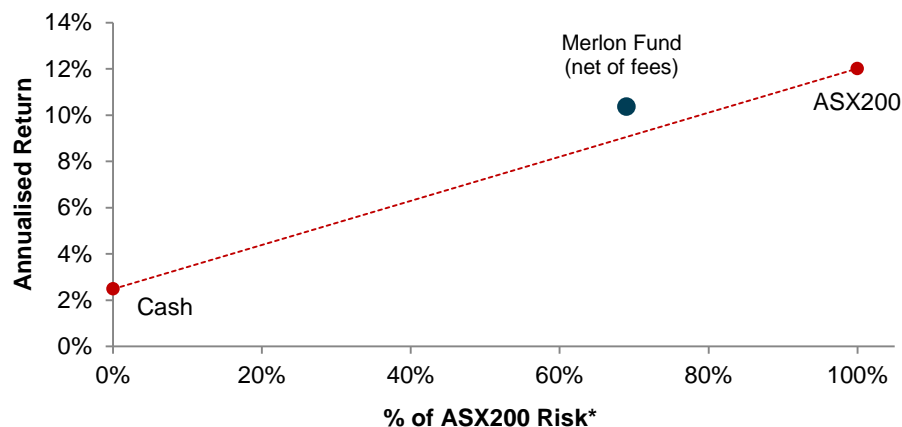
Monthly Income from $100,000 invested in July 2012 [iii]
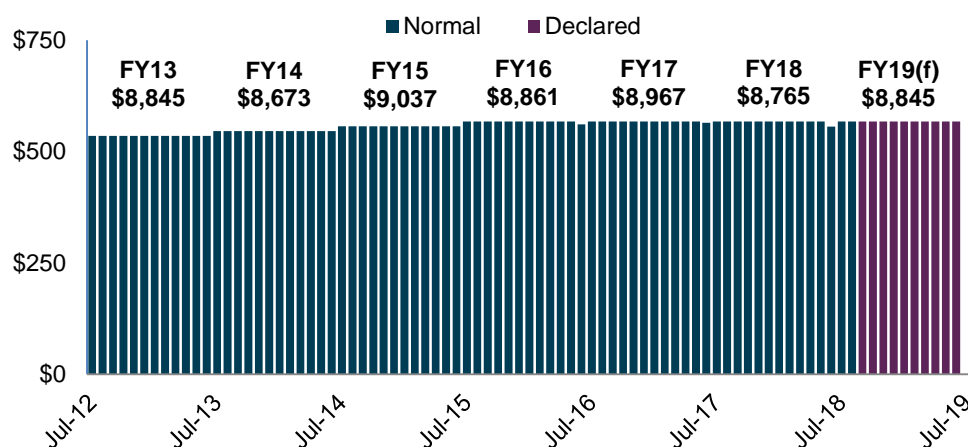
Top Ten Holdings (%)	
Magellan Financial	**5.8**
QBE Insurance	**5.6**
Wesfarmers	**5.2**
Caltex	**5.0**
Woolworths	**5.0**
News Corp	**5.0**
Commonwealth Bank	**5.0**
Westpac	**4.9**
AMP	**4.9**
Bendigo Bank	**4.9**

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Fund Details

Fund size	$ 566m
Firm-wide FUM	$ 1,431m
APIR Code	HBC0011AU
ASX Code	MLO02
Inception Date	30 September 2005
Distribution Frequency	Monthly
Minimum Investment	$ 10,000
Buy / Sell Spread	+/- 0.20%

Portfolio Analytics [iv]

	Fund	ASX200
Number of Equity Positions	31	200
Active Share	73%	0%
Net Equity Exposure	70%	100%
Beta	0.7	1.0
EV / EBITDA	9.2x	12.6x
Price / Earnings Ratio	15.8x	17.9x
Trailing Free Cash Flow Yield	5.1%	4.9%

About Merlon

Merlon Capital Partners is an Australian based fund manager established in May 2010. The business is majority owned by its five principals, with strategic partner Fidante Partners Limited providing business and operational support.

Merlon's **investment philosophy** is based on:

Value: We believe that stocks trading below fair value will outperform through time. We measure value by sustainable free cash flow yield. We view franking credits similarly to cash and take a medium to long term view.

Markets are mostly efficient: We focus on understanding why cheap stocks are cheap, to be a good investment market concerns need to be priced in or invalid. We incorporate these aspects with a "conviction score"

About the Fund

The Merlon Australian Share Income Fund's investment approach is to construct a portfolio of undervalued companies, based on sustainable free cash flow, whilst using options to overlay downside protection on holdings with poor short-term momentum characteristics. An outcome of the investment style is a higher level of tax-effective income than the broader market, paid monthly, along with the potential for capital growth over the medium-term.

Differentiating Features of the Fund

Deep fundamental research with a track record of outperformance. This is where we spend the vast majority of our time and ultimately how we expect to deliver superior risk-adjusted returns for investors.

Portfolio diversification with no reference to index weights. The benchmark unaware approach to portfolio construction is a key structural feature, especially given the concentrated nature of the ASX200 index.

Downside protection through fundamental research and the hedge overlay. In addition to placing a heavy emphasis on capital preservation through our fundamental research, we use derivatives to reduce the Fund's market exposure and risk by 30% whilst still retaining all of the dividends and franking credits from the portfolio.

Sustainable income, paid monthly and majority franked. As the Fund's name suggests, sustainable above-market income is an outcome of our investment approach and a key objective of the Fund.

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Footnotes