

Merlon Australian Share Income Fund

Monthly Fact Sheet – August 2018

For queries, please call Adviser Services on 1800 195 853



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

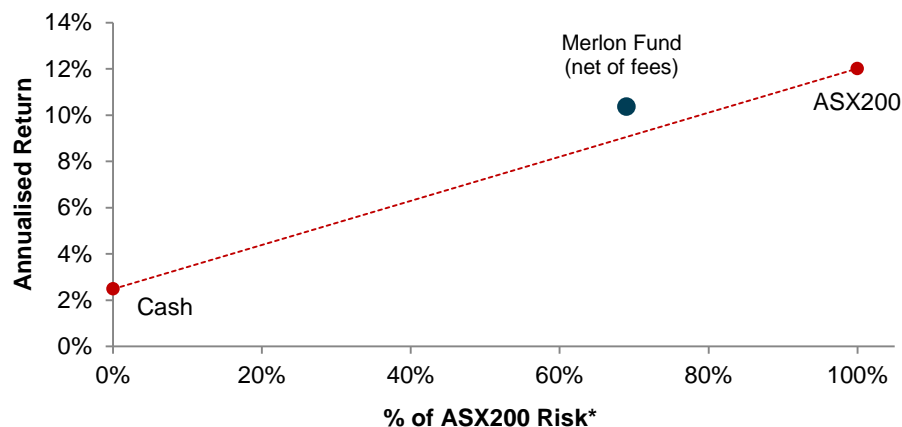
* Past performance is not a reliable indicator of future performance. All returns above are grossed up for franking credits. Portfolio inception date is 30/09/2005.

Monthly Performance Commentary

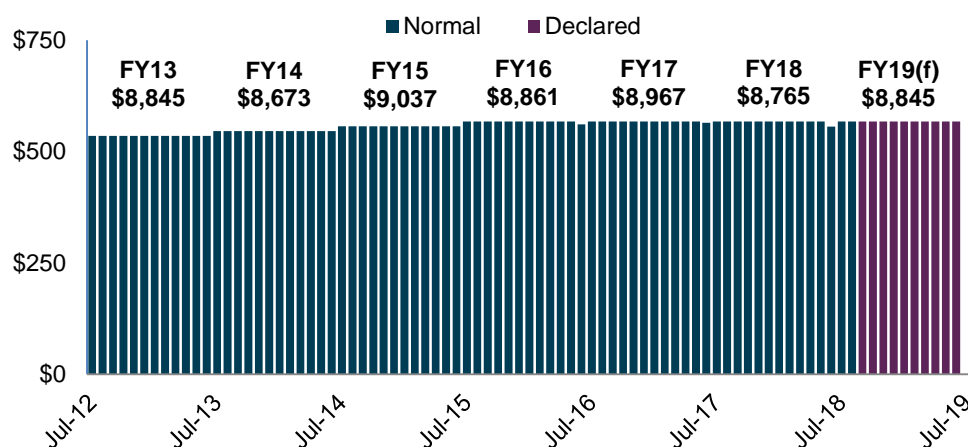
The ASX200 returned 1.7% for the month of August. Telecommunications were the best performers, rallying post TPG Telecom's announced merger with Vodafone. Telstra rallied 13% in response as mobile competition concerns eased. Technology and Health Care companies also performed strongly through reporting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



Monthly Income from \$100,000 invested in July 2012ⁱⁱⁱ



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		Portfolio Analytics ^{iv}		
Fund size	\$ 566m		Fund	ASX200
Firm-wide FUM	\$ 1,431m	Number of Equity Positions	31	200
APIR Code	HBC0011AU	Active Share	73%	0%
ASX Code	MLO02	Net Equity Exposure	70%	100%
Inception Date	30 September 2005	Beta	0.7	1.0
Distribution Frequency	Monthly	EV / EBITDA	9.2x	12.6x
Minimum Investment	\$ 10,000	Price / Earnings Ratio	15.8x	17.9x
Buy / Sell Spread	+/- 0.20%	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

ⁱ Performance (%)

Average Daily Market Exposure is calculated as the daily net market exposure divided by the average net asset value of the Fund.

Fund franking: Month 0.5%, Qtr 0.5%, FYTD 0.5%, Year 1.7%, 3 Years 1.7% p.a., 5 Years 1.8% p.a., 7 Years 2.0% p.a., 10 Years 2.2% p.a.

ASX200 franking: Month 0.3%, Qtr 0.3%, FYTD 0.3%, Year 1.4%, 3 Years 1.5% p.a., 5 Years 1.5% p.a., 7 Years 1.5% p.a., 10 Years 1.5% p.a.

ⁱⁱ Rolling Five Year Performance History

Past performance is not a reliable indicator of future performance. Returns for the Fund and ASX200 grossed up for accrued franking credits and the Fund return is stated after fees as at the date of this report. Merlon Australian Share Income Fund franking 2.0% p.a., ASX200 franking 1.5% p.a. % of ASX200 Risk represents the Fund's statistical beta relative to the ASX200

ⁱⁱⁱ Monthly Income from \$100,000 invested in July 2012

Past performance is not a reliable indicator of future performance. Income returns exclude 'bonus income' from above-normal hedging gains of \$849 in FY13 and assume no bonus income in FY17 estimate. Income includes franking credits of; \$2,420 (FY13), \$2,120 (FY14), \$2,356 (FY15), \$2,057 (FY16), \$2,159 (FY17), \$1,981 (FY18) and \$2,034 (FY19 estimate).

^{iv} Portfolio Analytics

Source: Merlon, Active share is the sum of the absolute value of the differences of the weight of each holding in the portfolio versus the benchmark, and dividing by two. It is essentially stating how different the portfolio is from the benchmark. Net equity exposure represents the Fund's net equity exposure after cash holding's and hedging. Beta measures the volatility of the fund compared with the market as a whole. EV / EBITDA equals a company's enterprise value (value of both equity and debt) divided by earnings before interest, tax, depreciation, and amortization, a commonly used valuation ratio that allows for comparisons without the effects of debt and taxation.

Disclaimer

Any information contained in this publication is current as at the date of this report unless otherwise specified and is provided by Fidante Partners Ltd ABN 94 002 835 592 AFSL 234 668 (**Fidante**), the issuer of the Merlon Australian Share Income Fund ARSN 090 578 171 (**Fund**). Merlon Capital Partners Pty Ltd ABN 94 140 833 683, AFSL 343 753 is the Investment Manager for the Fund. Any information contained in this publication should be regarded as general information only and not financial advice. This publication has been prepared without taking account of any person's objectives, financial situation or needs. Because of that, each person should, before acting on any such information, consider its appropriateness, having regard to their objectives, financial situation and needs. Each person should obtain a Product Disclosure Statement (**PDS**) relating to the product and consider the PDS before making any decision about the product. A copy of the PDS can be obtained from your financial planner, our Investor Services team on 133 566, or on our website: www.challenger.com.au. The information contained in this fact sheet is given in good faith and has been derived from sources believed to be accurate as at the date of issue. While all reasonable care has been taken to ensure that the information contained in this publication is complete and accurate, to the maximum extent permitted by law, neither Fidante nor the Investment Manager accepts any responsibility or liability for the accuracy or completeness of the information.