Merlon Australian Share Income Fund

Monthly Fact Sheet – April 2019

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)	3.8	9.0	6.1	7.1	8.7	7.3	9.8	9.9
70% ASX200/30% Bank Bills	1.7	7.0	5.6	9.1	9.4	7.1	9.0	9.1
ASX200	2.4	9.8	7.2	12.1	12.6	9.0	11.6	11.5
Average Daily Exposure	70%	70%	69%	69%	69%	69%	70%	70%
Gross Distribution Yield	0.7	2.5	6.2	7.3	7.4	7.5	8.0	8.9

* 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 continued its recent rally, returning 2.4% in April. Financials, led by the Banks, were the largest contributors to the market return. Consumer related companies performed well with Staples and Discretionary outperforming the market by 5.0% and 2.6% respectively. Mining companies took a breather following several months of strong returns. Real Estate Investment Trusts and Utilities also fell during the month.

The Fund returned 3.8% for the month, a pleasing result given the Fund maintained 70% net equity exposure. The underlying share portfolio rose 4.9%, outperforming the market by 2.5%. Magellan was the best performing holding and the Fund benefitted from having minimal Resources and bond proxy exposures. The hedge overlay, which reduces risk by 30% while preserving all the franked dividends, detracted 1.0%.

Rolling Seven Year Performance History [ii]
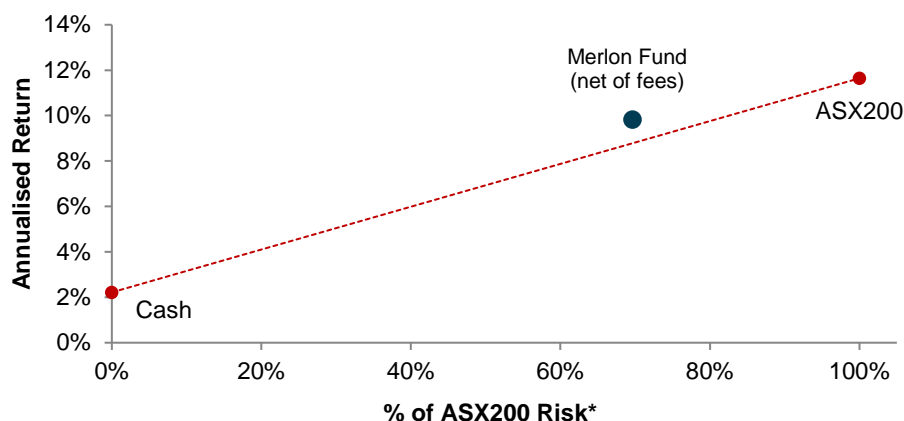
Monthly Income from $100,000 invested in July 2012 [iii]
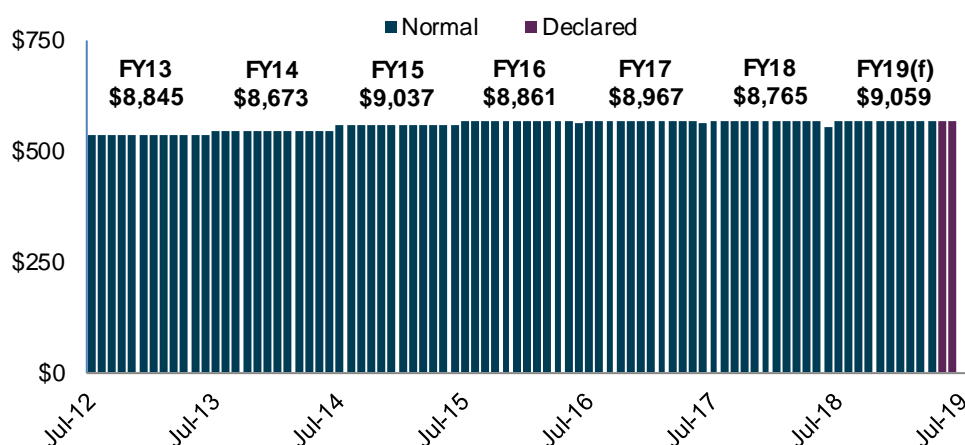
Top Ten Holdings (%)	
QBE Insurance	**5.8**
Magellan Financial	**5.5**
Commonwealth Bank	**5.0**
Coles Group	**5.0**
Aurizon	**4.9**
Westpac	**4.9**
Woolworths	**4.9**
News Corp	**4.8**
AMP	**4.8**
Caltex	**4.7**

Merlon Australian Share Income Fund
Monthly Fact Sheet – April 2019

For queries, please call Adviser Services on 1800 195 853

Fund Details

Fund size	$ 577m
Firm-wide FUM	$ 1,491m
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	36	200
Active Share	75%	0%
Net Equity Exposure	69%	100%
Beta	0.7	1.0
EV / EBITDA	8.8x	12.2x
Price / Earnings Ratio	15.3x	17.3x
Trailing Free Cash Flow Yield	5.6%	4.6%

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.

Merlon Australian Share Income Fund
Monthly Fact Sheet – April 2019

For queries, please call Adviser Services on 1800 195 853

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 0.2%, Qtr 0.9%, FYTD 1.8%, Year 1.9%, 3 Years 1.7% p.a., 5 Years 1.8% p.a., 7 Years 1.9% p.a., 10 Years 2.1% p.a.
ASX200 franking: Month 0.0%, Qtr 0.5%, FYTD 1.4%, Year 1.6%, 3 Years 1.5% p.a., 5 Years 1.5% p.a., 7 Years 1.5% p.a., 10 Years 1.5% p.a.
Composite benchmark is calculated as 70% S&P/ASX200 Accumulation Index and 30% Bloomberg AusBond Bank Bills Index.The Fund reduces exposure to share market volatility to a typical range of 60-80% through the use of derivatives with the remaining 20-40% option protection seeking to deliver a cash-like risk/return profile.

[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), $2159 (FY17), $1,981 (FY18) and $2,249 (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