

Merlon Australian Share Income Fund

Monthly Fact Sheet – January 2021

For queries, please call Investor Services on 13 51 53



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)	-0.3	11.1	10.8	-1.6	2.9	7.6	6.7	7.3
70% ASX200/30% Bank Bills	0.2	8.3	9.8	-0.5	6.6	8.7	7.3	7.5
ASX200	0.3	12.0	14.0	-2.2	8.3	11.4	9.3	9.3
Average Daily Exposure	65%	65%	65%	65%	67%	68%	68%	69%
Gross Distribution Yield	0.4	1.3	3.6	6.2	7.0	7.3	7.4	8.4

* 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. The source of fund returns and benchmark returns is Fidante Partners Limited, 31 January 2021.

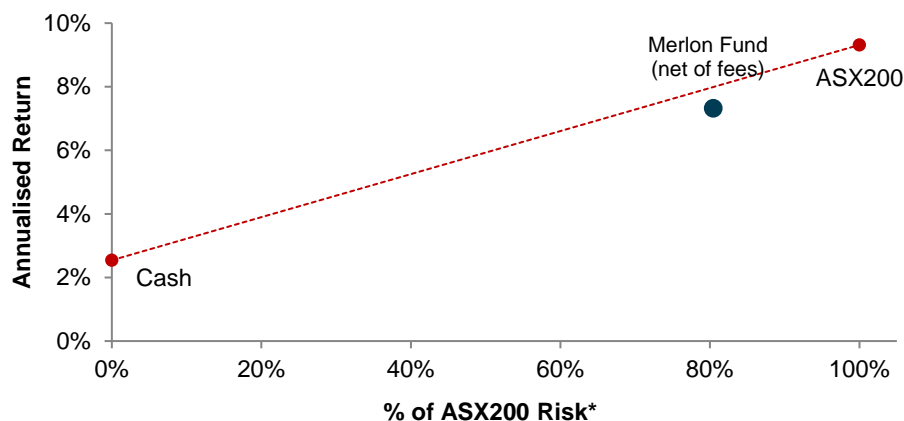
Monthly Performance Commentary

The ASX200 erased early month gains to return 0.3% to start the calendar year. Consumer exposed sectors (retailing, staples and media) along with banks were the best performing sectors. Resources pulled back towards the end of the month as iron ore gave up some of its recent gains. Real Estate (-4.4%) was the notable laggard underperforming as bond yields continued to rise.

The Fund returned -0.3% for the month (net of fees and inclusive of franking), underperforming the market. Within the portfolio Incitec Pivot, Unibail-Rodamco-Westfield, Woodside Petroleum and Super Retail were the largest contributors whilst IOOF, Alumina, NIB and Ampol were the larger detractors for the period.

The hedge overlay added 0.2% for the month, insulating the Fund from some of the fall in the underlying share portfolio.

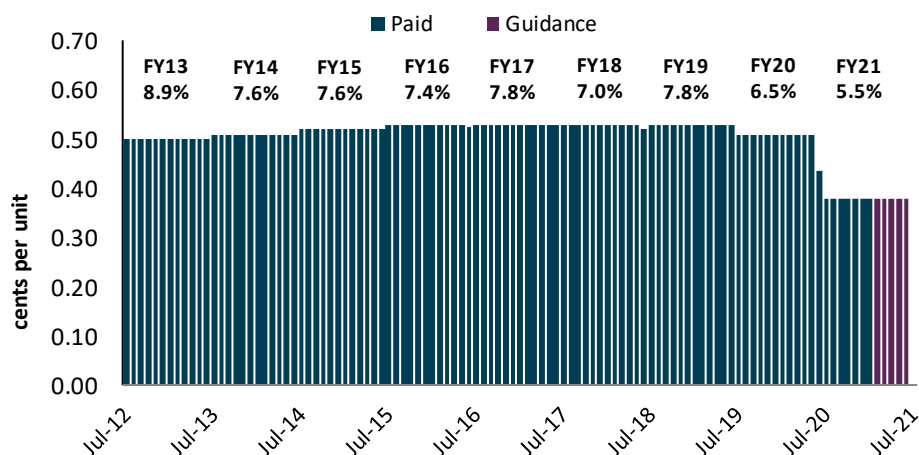
Rolling Ten Year Performance Historyⁱⁱ



Top Ten Holdings (%)

Westpac	5.4
Unibail Rodamco Westfield	5.2
Woodside	5.0
AMP	4.8
Alumina	4.6
Origin Energy	4.6
Coles	4.5
NIB	4.4
IAG Insurance	4.4
Ampol	4.3

Monthly Income since July 2012ⁱⁱⁱ



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Fund Details [^]		Portfolio Analytics ^{iv}		
Fund size	\$ 478m		Fund	ASX200
Firm-wide FUM	\$ 910m	Number of Equity Positions	36	200
APIR Code	HBC0011AU	Active Share	80%	0%
ASX Code	MLO02	Net Equity Exposure	65%	100%
Inception Date	30 September 2005	Beta	0.7	1.0
Distribution Frequency	Monthly	EV / EBITDA	9.1x	14.3x
Minimum Investment	\$ 10,000	Price / Earnings Ratio	16.5x	20.7x
Buy / Sell Spread	+/- 0.20%	Mid-cycle Free Cash Flow Yield	7.5%	4.4%

[^] Source: Fidante Partners Limited, 31 January 2021.

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 0.0%, Qtr 0.1%, FYTD 0.7%, Year 1.2%, 3 Years 1.6% p.a., 5 Years 1.7% p.a., 7 Years 1.7% p.a., 10 Years 1.9% p.a.

ASX200 franking[^]: Month 0.0%, Qtr 0.1%, FYTD 0.5%, Year 0.9%, 3 Years 1.3% p.a., 5 Years 1.4% p.a., 7 Years 1.4% 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.

[^] Source: Fidante Partners Limited, 31 January 2021.

ⁱⁱ Rolling Ten 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 since July 2012

Past performance is not a reliable indicator of future performance. Income returns exclude 'bonus income' from above-normal hedging gains in FY13.

^{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

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