Merlon Income Strategy

Merlon Australian Share Income Fund

Quarterly Report

June 2021

Contents

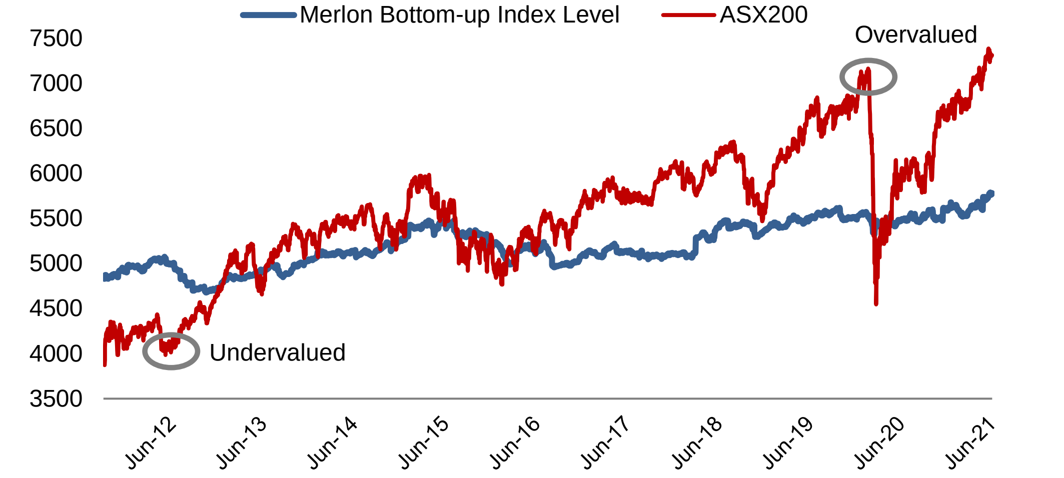
Market Outlook and Portfolio Positioning

Neil Margolis

As has been our historic practice, we continue to provide an aggregate assessment of the ASX200 valuation, based on the individual company valuations for the 150 stocks we actively cover. On this basis the market appears more than 20% overvalued after rallying by more than 8% during the quarter.

Market approximately 19% overvalued using consistent bottom-up approach

Figure 1: Merlon bottom up market valuation vs ASX200 level



Source: Merlon

Our individual company valuations have been established utilising our estimates of sustainable free-cash-flows and franking credits, discounted at consistent mid-cycle interest rates and risk premiums. Our valuations are long-term and generally a lot more stable than fluctuating share prices, creating good opportunities for patient long-term investors.

In addition to being less volatile, Merlon's consistent valuation approach across all companies also gives insight into where the market is overly concerned or overly complacent with regard to stock specific risks. This lens on valuation dispersion is more useful than trying to predict when and if the market will price in "mid-cycle" interest rates and long-run average risk premiums. Merlon's value portfolio comprises our best research ideas, based on our long-term valuations and analyst conviction.

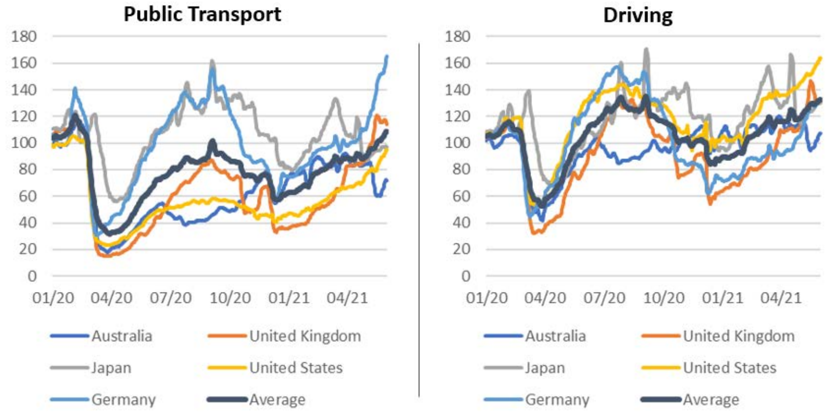
Confidence indicators and markets are leading economic activity …

We always maintain a long-term view. In that respect, as we indicated in prior updates and in our **March 2020 COVID Roadmap** we were optimistic that at some point there would be a vaccine, herd immunity will develop, and ordinary life will bounce back. It is not surprising to us therefore that the market accumulation index recently set a new record high (at the time of writing) although record low rates have continued to manifest in very wide valuation dispersion between sectors and stocks. In our March quarter report, we updated our **COVID Roadmap One Year On**.

The past financial year has seen sizeable geopolitical, social, and economic transitions, with Republican Trump ceding power to the Democratic Biden, and the development of multiple COVID vaccines, enabling people to look beyond the pandemic and towards normality.

Mobility indices show that while driving activity is now above pre-pandemic levels, usage of public transport remains below, showing energy-intensity has risen. The final piece of mobility that has yet to recover is air travel, with international travel activity remaining at a third of pre-COVID levels, and likely to remain depressed until the vaccine rollout is sufficiently progressed globally.

Figure 2: Activity normalisation



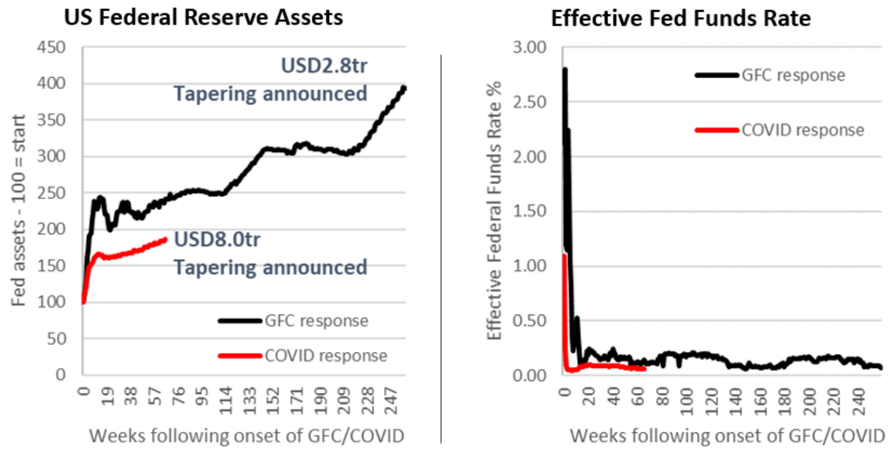
Data source: Apple Mobility Trends. Calculations / analysis: Merlon Capital.

But with this return to normality, investors will need to contend with an environment of policy normalisation also, which comes with its own set of risks. Yet history would suggest the ability to 'normalise' policy is difficult, with neither rates nor the US Federal Reserve's (Fed) balance sheet returning to anything near pre-GFC levels. In the case of quantitative easing (QE), it took five years from the onset of the GFC for the Fed to talk about tapering, let alone achieve any kind of meaningful normalisation. And with inflation expectations 'normal' at 2.0-2.50%, but not elevated, the need to tighten on account of inflation appears low.

Figure 3: Inflation normalisation

Data source: Federal Reserve Bank of St. Louis. Calculations / analysis: Merlon Capital.

Figure 4: Policy normalisation?



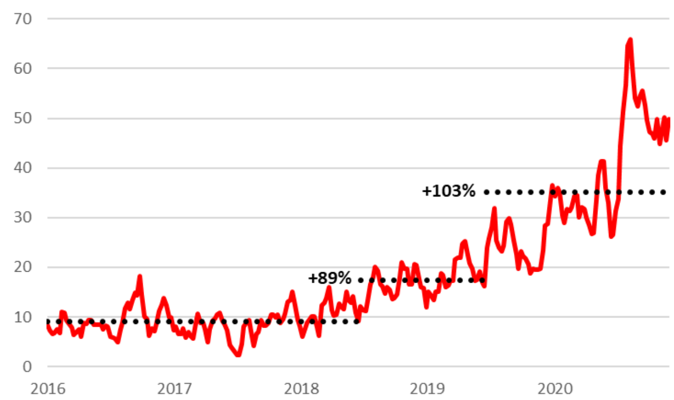
Data source: Federal Reserve Bank of St. Louis. Calculations / analysis: Merlon Capital.

Looking ahead: Google Search Trend data shows decarbonisation looking increasingly set to dominate the narrative, with interest having accelerated significantly over the past 18 months as the effects of climate change have become more visible in the media, and with Biden re-signing the Paris Agreement.

While the Australian economy has been backstopped by China's desire to build ever more apartments, domestic political tensions pinned to climate are escalating, highlighting the fragility of the coalition government. While the decarbonisation equation in most developed economies rests on the cost of changing the type of electricity being generated, the equation in Australia is more fraught as the world's top supplier of carbon-intensive energy (LNG and thermal coal).

Our work suggests that in the case of decarbonising Australia's own electricity generation, it will cost more than is justified by current electricity prices, with this cost ultimately being borne by consumers, whether via higher taxes or electricity prices. We expect demand for carbon-intensive energy raw materials to be persistent for longer than is expected, lending an upward risk bias to the pricing of these commodities, valuable for those with existing operations.

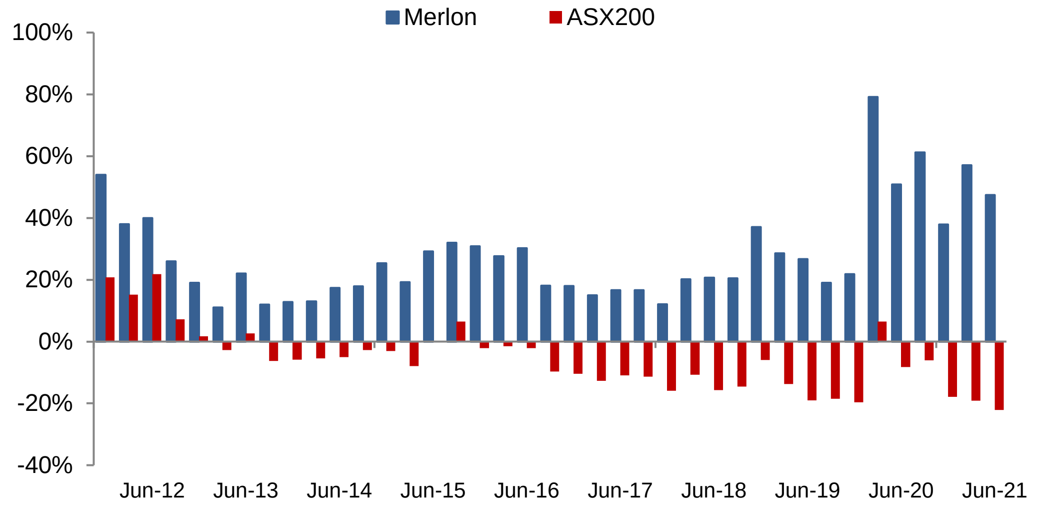
Figure 5: interest in decarbonisation is accelerating



Data source: Google Search Trends. Calculations / analysis: Merlon Capital.

The Merlon portfolio continues to offer truly exceptional expected returns…

Figure 6: Expected return based on Merlon valuations



Source: Merlon

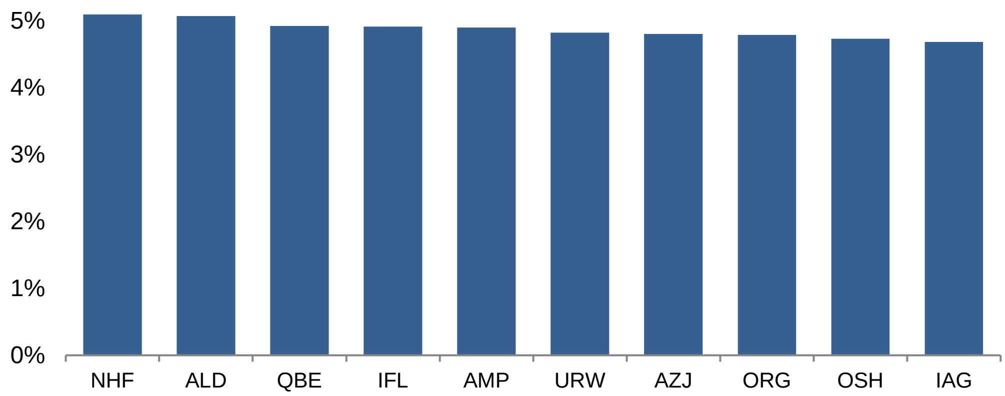
We expect the environment over the next year or so will continue to present appealing investment opportunities for investors with long-term horizons, who are prepared to look through short term noise and who are comfortable having unpopular views.

Portfolio Aligned to Value Philosophy and Fundamental Research

The portfolio comprises undervalued businesses based on sensible interest rate and risk margin assumptions…

The portfolio reflects our best bottom-up fundamental views rather than macro or sector-specific themes. These are usually companies that are under-earning on a three-year view, or where cash generation and franking are being under-appreciated by the market.

Figure 7: Top ten holdings (gross weights)



Source: Merlon

While we are not macro investors, as discussed above there are clearly some macro themes inherent within the portfolio. We need to be aware of these themes and ensure they do not expose us or our clients to unintended risks. In the first instance, any such risks are mitigated by our strategy of investing in companies that are under-valued relative to the sustainable free cash flows and the franking credits they generate for their owners. Attractive valuations strongly imply that market concerns are – at least to some extent – already reflected in expectations and provide a "margin of safety" in the event conditions deteriorate.

Our larger investments are typically in companies where investors have become overly pessimistic about long term prospects on account of weaker short-term performance. This tendency to extrapolate short-term conditions too far into the future and investors' focus on management manipulated measures of corporate financial performance instead of cash flow continue to present us with opportunities.

Top holdings:

NHF is Australia's third-largest health insurer, operating in an industry underpinned by a two-tier system. The past twelve months has seen a reduced level of claims, coupled with member growth. The market has concerns around the company's loss-making travel insurance and student businesses, yet we see both issues as transitory, making the company relatively cheap. We see this value as enhanced by the likelihood of a provision release and the potential for capital management.

Ampol (formerly Caltex) is an integrated oil refining and fuel supply and marketing company, operating in a strong and improved industry structure dominated by vertically integrated companies capable of generating margins throughout their supply chain. Volumes are clearly impacted by COVID-19 related disruptions, but the company is in a strong position to gain share with downside risk mitigated by hard property assets. We also think the take-over offer has a reasonable chance of being reinstated, with the release of franking credits, even if at a reduced headline price.

QBE is a leading global insurer, seeing the strongest rate increase environment in 20 years. The company is undervalued relative to our valuation, as the market is concerned by persistent earnings disappointments, as well as shorter term claims risks from business interruption. With these concerns already reflected in the price, and our expectations that insurance margins are likely to overshoot to the upside given rate increases, we anticipate the market will ultimately recognise and value a likely 8% mid-cycle free cashflow yield, plus franking.

IOOF is effectively the only remaining scale operator in financial advice. While the market is concerned about competition, fee and regulatory pressures, the company is trading on just 9 x FY22 earnings. The company is generating strong cashflows, which is likely to lead to capital management, having completed its acquisition of MLC, a transaction we see as likely to enable cost out and the extraction of up to $150m of synergies.

Post completion of the life transaction and other announced transactions, **AMP** has net tangible assets (mainly cash) of $3.4b against a market cap of $4.2b. For the less than $1b capital at risk, investors own a growing fund manager, AMP Capital, with $190b FUM (including $60b in “real assets”), a high returning bank ($20b in mortgages and $17b deposits), a NZ wealth business ($40m earnings), a $120b platform administration business and a loss-making advisor servicing business net of corporate costs that might break-even if cost-out targets are achieved. Governance failures are being addressed with a renewed board and management.

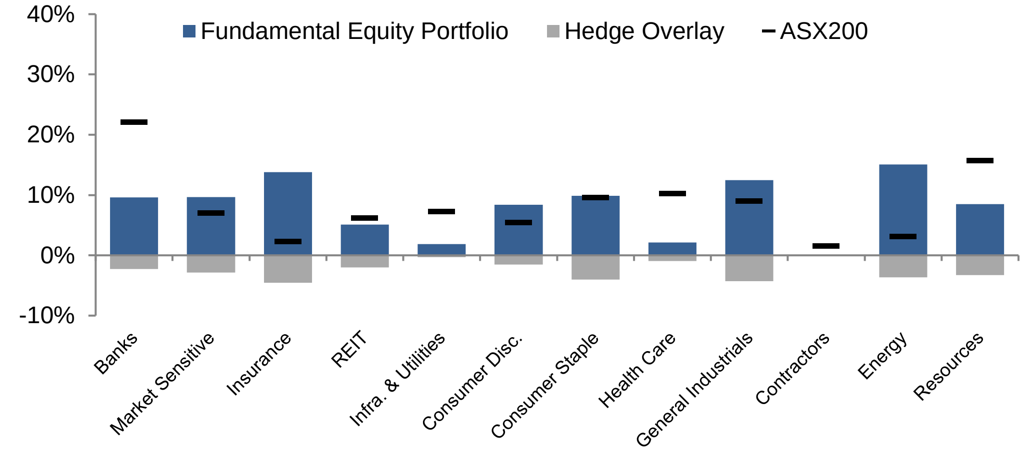
After establishing an initial position during the COVID downturn and adding at lower levels, **Unibail-Rodamco-Westfield** has rallied to become a large position. The stock has been impacted by the effect of COVID-19 lockdowns across Europe and US, where its portfolio of high-grade shopping malls is located. While the market is also concerned by the threat of online consumer purchasing behaviour, we expect the value of its premium-grade portfolio to be reflected by the market as the rollout of the vaccine gathers pace, particularly given the backdrop of negative real interest rates.

Aurizon operates the monopoly Queensland rail network for large, low cost and predominantly metallurgical (rather than thermal) coal miners. The stock had become cheap, relative to our estimate of a mid-cycle return on capital-based valuation. The stock has been affected by concerns relating to Chinese restrictions on a range of imported Australian goods, including coal. We expect Chinese import restrictions on coal to abate, given the effect of restrictions on domestic energy prices, which will likely see the share price appreciate towards our valuation.

Origin Energy remains cheap despite the rally in oil prices, as the market is concerned by the effect of low electricity pricing on Origin's wholesale and retail electricity businesses. We see low electricity prices as having been driven by 1. the effect of low gas prices, 2. an unseasonably cool summer, and 3. the growth in renewables supply. In addressing these points, we expect gas pricing to normalise as onshore demand recovers, the Bureau of Meteorology-declared end of the current La Nina weather system, and post-COVID demand recovery should enable some recovery of electricity prices. We are also not convinced the current price environment is sustainable for investment in sustaining existing generation assets, nor does it incentivise new investment required to offset planned retirements.

Oil Search remains undervalued relative to our assessment of value, and despite the rally in oil prices. The market is currently discounting the value of the company's low cost, conventional core operating asset base, in addition to its large undeveloped reserve profile. We expect oil prices to continue to strengthen as demand recovers to pre-COVID levels, while the underinvestment in conventional and now unconventional oil supply, as evidenced by an active global rig count nearly 40% below pre-COVID levels, manifests in a reduced ability of supply to meet demand.

Figure 8: Portfolio exposures by sector (gross weights)



Source: Merlon

Figure 9: Portfolio Analytics[ii]

	Portfolio	ASX200
Number of Equity Positions	33	200
Active Share	78%	0%
Merlon Valuation Upside	57%	-19%
EV / EBITDA	8.4x	13.8x
Price / Earnings Ratio	15.5x	20.1x
Price / Book Ratio	2.0x	4.5x
Mid-cycle Free Cash Flow Yield	7.1%	4.5%
Distribution Yield (inc. franking)	7.0%	4.5%
Net Equity Exposure	70%	100%

Source: Merlon

The hedge overlay offers material downside protection

At quarter end, the hedge overlay was inline with the targeted 30% reduction in market exposure, and will provide material protection if markets retrace towards the recent lows.

March Quarter Portfolio Activity

There were three new investments in the quarter and three positions exited

During the quarter, we established new investments in **Aurizon Holdings** (see summary above), **AGL Energy** and **Genworth Mortgage Insurance**, funded by exits of News Corp, Star Entertainment, Bendigo Bank, Nick Scali, Sims Metals and Asaleo Care, which had reached our valuations.

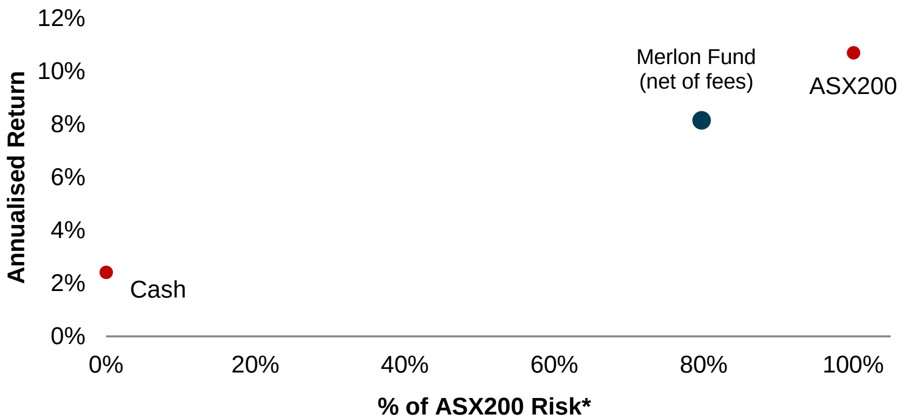
AGL Energy is Australia's largest electricity generator and retailer. The market is capitalising the currently low electricity prices, despite the likelihood that prices should appreciate as seasonal weather conditions normalise, and as the effect of COVID on demand reverses. The market is also concerned by continued state and federal government intervention into the sector, which may have the adverse effect of driving out private investment in new generation, as well as investment in existing generation assets.

Genworth Mortgage Insurance Australia provides insurance for 1.2 million loans on behalf of major Australian banks. The stock has underperformed the market on concerns relating to the effect of COVID on the Australian housing sector. We model a lower than market-expected 10 year average loan-loss rate of 5 basis points, supported by a better quality mortgage portfolio.

Performance[i] (%) (after fees, inc. franking)	Month	Quarter	FYTD	Year	3 Years (p.a.)	5 Years (p.a.)	7 Years (p.a.)	10 Years (p.a.)
Fund Total Return	1.5	2.7	16.6	16.6	5.2	7.2	6.8	8.2
70% ASX200 / 30% Bank Bills	1.6	5.9	19.7	19.7	8.2	9.3	7.8	8.4
ASX200	2.3	8.4	28.8	28.8	10.9	12.5	10.2	10.7
Average Daily Exposure	70%	68%	66%	66%	67%	68%	68%	70%
Gross Distribution Yield	0.4	1.3	6.8	6.8	7.1	7.2	7.3	7.9

Past performance is not a reliable indicator of future performance. Total returns above are grossed up for franking credits. Gross Distribution Yield represents the income return of the fund inclusive of franking credits. Portfolio inception date is 30/09/05.
The source of fund returns and benchmark returns is Fidante Partners Limited, 30 June 2021.

Figure 10: Rolling Ten Year Risk vs. Return (%p.a.)[ii]



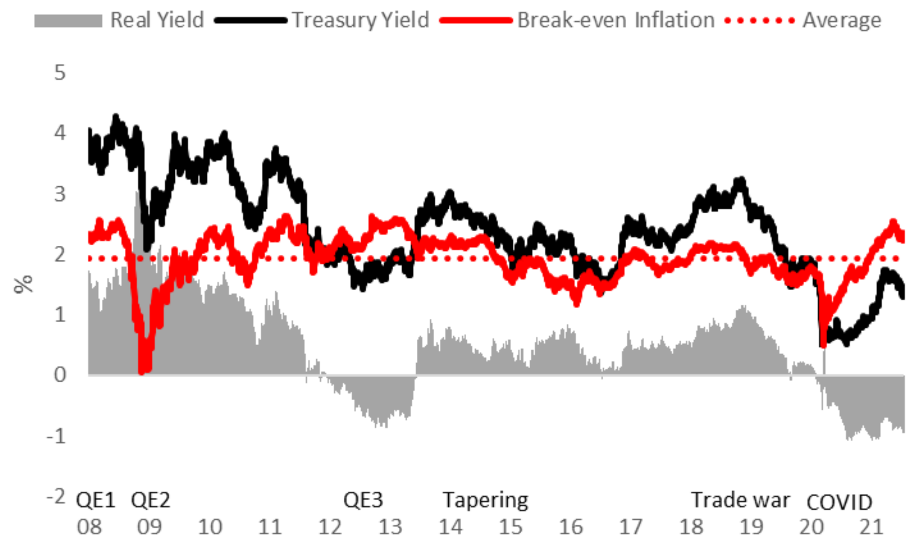
Source: Merlon

June Quarter Market & Portfolio Review

Markets approached all-time highs in another strong quarter …

Markets maintained their strength through the June quarter, with the US S&P500 reaching record highs. While the Biden administration had to settle for an infrastructure program roughly half its proposed USD2.3tr initiative, markets took the acceleration in vaccination rates (see below) as a key driver of confidence. Although reported inflation figures are reflecting the combination of base effects and still-disrupted supply chains, market expectations remain only moderately above average levels. And with treasury yields dipping more recently, real yields remain firmly negative – also supportive of equity markets.

Figure 11: Yields & Inflation Expectations

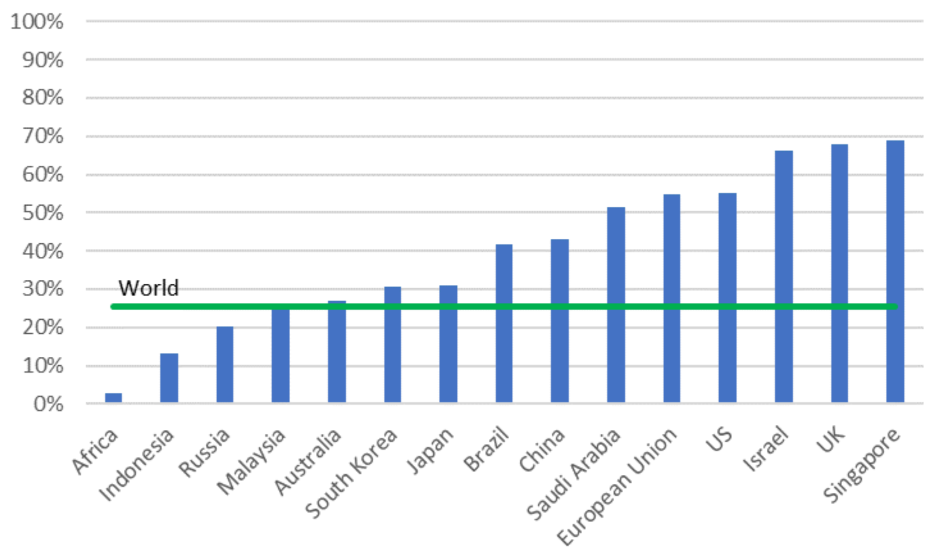


Data source: Federal Reserve Bank of St. Louis. Calculations / analysis: Merlon Capital.

COVID

Vaccination rates accelerated during the quarter, with just over 25% of the world's population having received at least one vaccine dosage. This rate sees a skew towards more developed economies. Both Israel and the United Kingdom have part-to-fully vaccinated their populations and are now effectively test-cases for the rest of the world, having relaxed restrictions for their populations. Rates from here will depend on supply availability, coupled with the effects of any latent vaccine-hesitancy amongst the population.

Figure 12: Global vaccination rates (% of population with at least one dose)

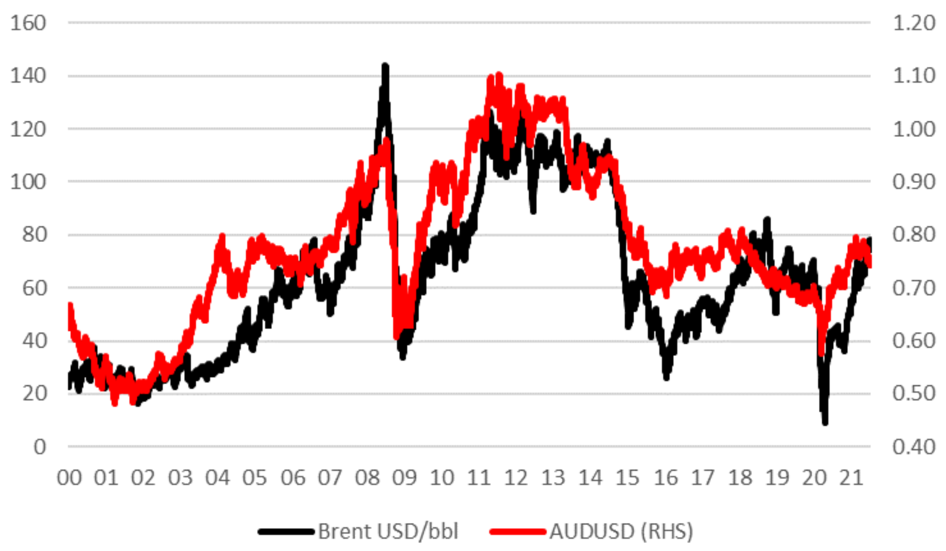


Data source: Our World in Data. Calculations / analysis: Merlon Capital.

Commodities

Commodities maintained their strength, with iron ore above USD200/t, thermal coal above USD100/t, and crude oil back to USD75/bbl. While much has been made of the demand environment, all commodities remain heavily supply dependent. In the case of iron ore, Brazil is still seeking some degree of post COVID normality; thermal coal awaits Indonesia's return to the export market, and; oil remains firmly under the control of the OPEC-plus alliance.

Figure 13: Oil vs Australian dollar



Data source: Federal Reserve Bank of St. Louis. Calculations / analysis: Merlon Capital.

Portfolio review

The portfolio underperformed this quarter ….

Despite having outperformed strongly over the first half of FY21, the second half saw the portfolio lag the market. Whilst primarily driven by the structurally lower exposure, the share portfolio underperformed the market. While overweight positions in **NIB**, **IOOF**, **New Hope**, **Ampol** and **QBE** contributed, these were ultimately outweighed by negative contributions from overweight positions in **AMP**, **Incitec Pivot, Alumina,** and **Aurizon**, and an underweight position in **CBA**. In broader terms, we saw the positive contribution from the underweight healthcare position outweighed by the overweight financials position, and the overweight energy exposures, despite the continued rally in the oil price.

… but exhibited strong value characteristics by outperforming materially in the COVID recovery.

Over the full financial year, the portfolio underperformed the market's 29% rally with a return of 17%. Again, the structurally lower exposure that the Fund maintains was the primary driver of relative returns. During the year the Fund continued its track record of delivering an above market yield.

Key contributors over the period have been overweight positions in COVID-beneficiaries **Super Retail** and **Harvey Norman**, as well as **Newcorp, Virtus**, and an underweight position in **CSL**. Detractors included overweight positions in **AMP**, **Origin Energy**, **IAG** and **Ampol**, and an underweight position in **CBA**.

The contributions from the portfolio's retail names was particularly pronounced as the effects of the COVID-induced lockdowns assisted demand for home furnishings and other consumer recreation-related items.

The portfolio's **non-benchmark value and contrarian style,** along with the structurally lower exposure, has been a headwind over the past few years and in the initial stages of the COVID-19 downturn. Investors have gravitated towards large capitalisation quality and growth stocks, even more so as interest rates have approached zero. This has only served to increase our resolve and belief in taking a long-term view based on sustainable free cash flow combined with low market expectations.

As we documented in our March 2020 roadmap, we are focused on the risk of permanent loss and mitigate this by taking a long-term view, focusing on owning undervalued assets and fully deducting debt in developing our investment case. At the same time, the opportunity for meaningful absolute and relative performance is significant.

The additional performance information over the page is presented on a financial year basis and should be read in conjunction with the summary performance table on page 12.

Additional Performance Detail: Sources of Return

FY Performance[i] (%) (inc. franking)	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	10 Years (p.a.)
Underlying Share Portfolio	26.8	-9.3	8.4	7.4	23.5	7.0	9.5	16.3	36.0	-3.4	11.4
Hedge Overlay	-9.1	3.9	-0.9	-2.3	-5.6	-0.9	-1.7	-3.5	-9.3	2.6	-2.2
Fund Return (before fees)	17.7	-5.4	7.5	5.1	17.9	6.1	7.8	12.8	26.7	-0.8	9.2
Fund Return (after fees)	16.6	-6.3	6.5	4.1	16.8	5.1	6.8	11.8	25.6	-1.8	8.2

FY Performance[i] (%) (before fees, inc. franking)	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	10 Years (p.a.)
Underlying Share Portfolio	26.8	-9.3	8.4	7.4	23.5	7.0	9.5	16.3	36.0	-3.4	11.4
ASX200	28.8	-6.5	13.2	14.5	15.5	2.2	7.2	18.9	24.3	-5.1	10.7
Excess Return	-2.0	-2.8	-4.8	-7.1	8.0	4.8	2.3	-2.7	11.7	1.7	0.7

FY Performance[i] (%) (after fees)	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	10 Years (p.a.)
Income	5.1	5.2	5.8	5.5	6.2	5.9	5.6	5.8	7.8	7.6	6.0
Franking	1.7	1.2	2.2	1.5	1.6	2.1	1.9	1.7	2.3	2.5	1.9
Growth	9.8	-12.7	-1.4	-2.8	9.0	-2.9	-0.7	4.3	15.5	-11.9	0.3
Fund Return (after fees)	16.6	-6.3	6.5	5.1	16.8	5.1	6.8	11.8	25.6	-1.7	8.2

FY Performance[i] (%) (after fees, inc. franking)	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	10 Years (p.a.)
Fund Return (before fees)	17.7	-5.4	7.5	5.1	17.9	6.1	7.8	12.8	26.7	-0.8	9.2
70% ASX200/30% Bank Bills	19.7	-3.6	9.9	10.6	11.3	2.2	6.0	14.0	17.8	-2.1	8.4
Excess Return (before fees)	-2.0	-1.9	-2.4	-4.4	6.6	3.9	1.8	-1.2	8.9	1.3	0.8
Excess Return (after fees)	-3.1	-2.7	-3.4	-5.4	5.5	2.9	0.8	-2.2	7.7	0.4	-0.2

Monthly Distribution Detail: Cents per Unit

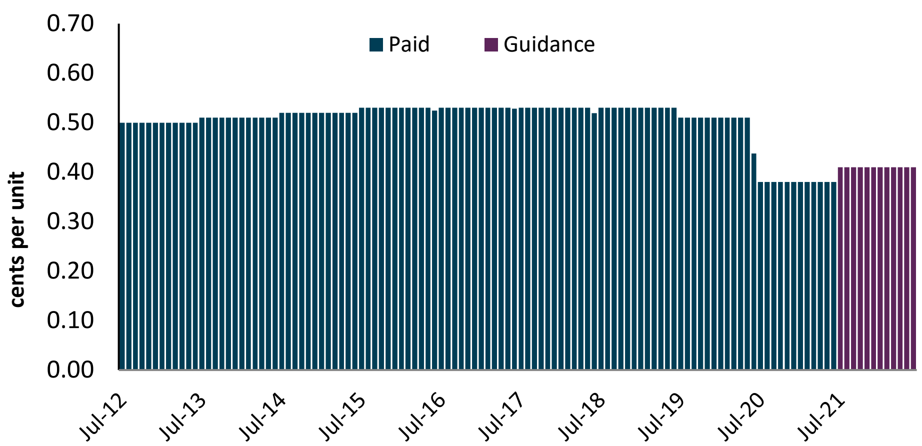
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total	Franking
FY2013	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.29	**6.79**	2.26
FY2014	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.52	**6.13**	1.98
FY2015	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	**6.24**	2.20
FY2016	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.52	**6.35**	1.92
FY2017	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	**6.36**	2.02
FY2018	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.52	**6.35**	1.84
FY2019	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.50	**6.33**	2.57
FY2020	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.44	**6.05**	1.40
FY2021	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.38	0.47	**4.65**	1.76
FY2022	*0.41*	*0.41*	*0.41*	*0.41*	*0.41*	*0.41*	*0.41*	*0.41*	*0.41*	*0.41*	*0.41*	*0.41*	***4.92***	*1.86*

Highlighted data are estimates at the date of this report.

Monthly income will be 0.41 cents per unit at least through to May 2021…

and the franking level is projected to be in the 60-70% range

Figure 14: Monthly Income from $100,000 invested in July 2012[iii]



Source: Merlon, FY21 estimate, FY Yield based on monthly distribution plus franking credits divided by opening unit price, excludes bonus income in FY13 and FY14.

Links to Previous Research

COVID-19 - One Year On

Interest Rates & Inflation

Reinventing Value Investing

The Merlon Approach to Corporate Governance

The Strategic Value of amaysim

Oil - Pricing in a More Realistic Recovery

Long-term Dividend Opportunity the Main Game

Oil - Pricing in More Realistic Recovery

COVID-19 Roadmap

Trade war – winners, losers and…is it over?

Why Telstra could be worth less than $2

Good Companies not Always Good Investments

The AMP Valuation Case

Iron Ore: Supply Disruption is Temporary

A Case Study in Poor Capital Allocation

Trade Wars and the Peak of the Chinese Growth Model

Some More Thoughts on Telstra

Rethinking Post Retirement Asset Allocation

Amazon Revisited - Muted Impact So Far

Some Thoughts on Asset Prices

Digital vs. Traditional Media - A Global Trend

Value Investing - An Australian Perspective: Part III

Oil: The Cycle Continues

Value Investing - An Australian Perspective: Part II

Telstra Revisited

Value Investing - An Australian Perspective: Part I

The Case for Fairfax Media Over REA Group

Some Thoughts on Australian House Prices

Amazon Not Introducing Internet to Australia

Iron Ore is Well Above Sustainable Levels

Boral's High Priced Acquisition of Headwaters

Fund Details^

Fund size	$ 471m	Merlon FUM	$ 1,008m
APIR Code	HBC0011AU	Distribution Frequency	Monthly
ASX Code	MLO02	Minimum Investment	$ 10,000
Inception Date	30 September 2005	Buy / Sell Spread	+/- 0.20%

^Source: Fidante Partners Limited, 30 June 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, 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 a key objective but it is an outcome of our investment approach.

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.
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.
Fund Franking^: Month 0.0%, Qtr 0.1%, FYTD 1.6%, Year 1.6%, 3 Years 1.6% p.a., 5 Years 1.7% p.a., 7 Years 1.8% p.a., 10 Years 1.9% p.a.
ASX200 Franking^: Month 0.0%, Qtr 0.2%, FYTD 1.0%, Year 1.0%, 3 Years 1.0% p.a., 5 Years 1.3% p.a., 7 Years 1.4% p.a.,10 Years 1.5% p.a.
^ Source: Fidante Partners Limited, 30 June 2021.

[ii] **Rolling Seven 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, assumes distributions are reinvested.
% 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 in FY13 and assumes no bonus income in FY21 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.