

Merlon Australian Share Income Fund

Monthly Fact Sheet – October 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)	-1.1	3.5	4.0	21.4	7.4	6.9	6.6	8.6
70% ASX200/30% Bank Bills	-0.1	0.8	1.6	19.9	9.8	9.1	7.6	8.8
ASX200	-0.1	1.1	2.2	29.2	13.3	12.3	9.9	11.5
Average Daily Exposure	70%	69%	69%	68%	68%	68%	68%	69%
Gross Distribution Yield	0.5	1.8	2.3	7.1	7.1	7.1	7.3	7.9

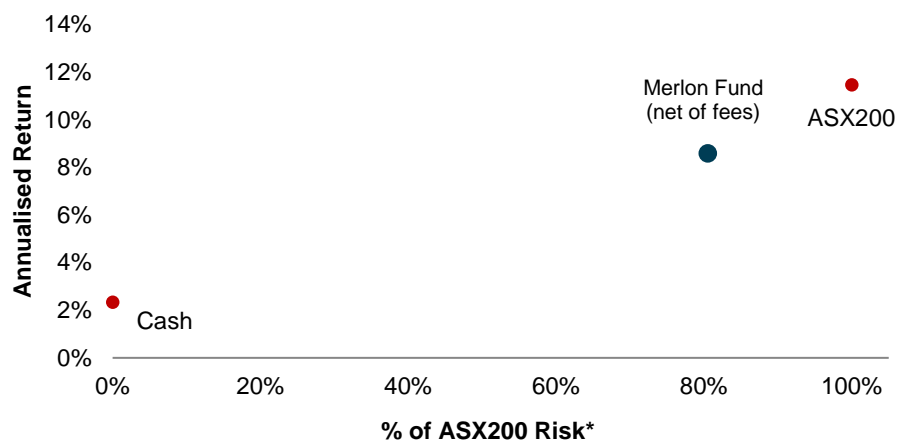
* Past performance is not a reliable indicator of future performance. All returns above are grossed up for franking credits. Portfolio inception date is 30/09/2005. The source of fund returns and benchmark returns is Fidante Partners Limited, 31 October 2021.

Monthly Performance Commentary

After rallying steadily during the month, the ASX200 retreated to return -0.1% in October. Technology companies were the best performers followed by Health Care and Financials. Mining companies were generally weaker led by BHP Billiton, Rio Tinto and Fortescue as the iron ore price continued to fall. Energy stocks fell despite the oil price rising during the month.

The Fund returned -1.1%, underperforming the ASX200. After several months of outperforming, the Fund's investments in energy companies (Whitehaven, New Hope, Woodside, Oil Search) detracted. Aurizon underperformed after announcing the acquisition of One Rail. Unibail-Rodamco-Westfield underperformed after releasing third quarter earnings. Ampol and Origin Energy outperformed after releasing quarterly results that were ahead of market expectations. AMP (+9%), also contributed, rebounding from its recent lows.

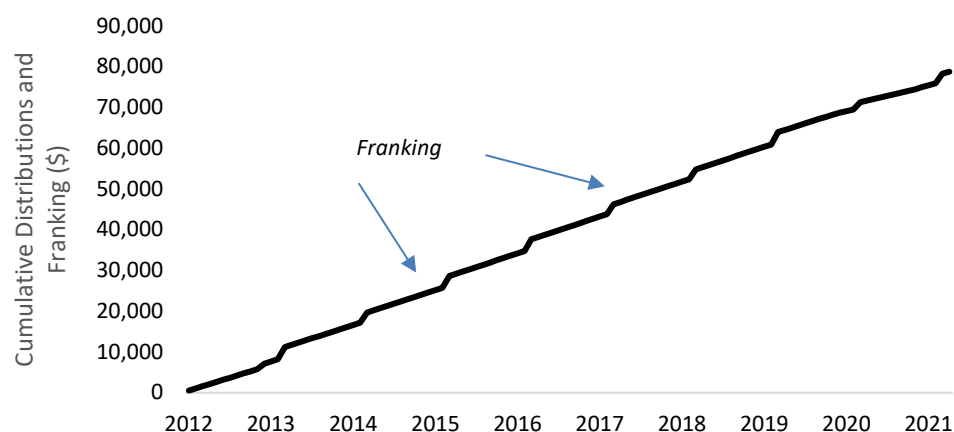
Rolling Ten Year Performance History ⁱⁱ



Top Ten Holdings (%)

Ampol	5.3
Oil Search	5.1
Woodside	5.0
AMP	4.8
Origin Energy	4.7
Alumina	4.6
QBE Insurance	4.5
Coles	4.4
IOOF	4.3
IAG	4.0

Monthly Income since July 2012 ⁱⁱⁱ



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Fund Details [^]		Portfolio Analytics ^{iv}		
Fund size	\$453m		Fund	ASX200
Firm-wide FUM	\$1,056m	Number of Equity Positions	33	200
APIR Code	HBC0011AU	Active Share	83%	0%
ASX Code	MLO02	Net Equity Exposure	68%	100%
Inception Date	30 September 2005	Beta	0.7	1.0
Distribution Frequency	Monthly	EV / EBITDA	12.3x	18.2x
Minimum Investment	\$ 10,000	Price / Earnings Ratio	13.9x	20.7x
Buy / Sell Spread	+/- 0.20%	Mid-cycle Free Cash Flow Yield	7.4%	4.3%

[^] Source: Fidante Partners Limited, 31 October 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 0.1%, Qtr 0.7%, FYTD 0.7%, Year 1.9%, 3 Years 1.7% p.a., 5 Years 1.6% p.a., 7 Years 1.7% p.a., 10 Years 1.8% p.a.

ASX200 franking[^]: Month 0.0%, Qtr 0.6%, FYTD 0.6%, Year 1.2%, 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 October 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 1.8% p.a., ASX200 franking 1.4% 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

This material has been prepared by Merlon Capital Partners (ABN 94 140 833 683, AFSL 343753) Merlon, the investment manager of the Merlon Australian Share Income Fund. Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante) is a member of the Challenger Limited group of companies (**Challenger Group**) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at www.fidante.com should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. Alphinity and Fidante have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, Alphinity and Fidante may receive remuneration or other benefits in respect of financial services provided by the parties. Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the *Banking Act 1959* (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (**Challenger ADI**) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.