Merlon Income Strategy

Merlon Australian Share Income Fund

Quarterly Report

December 2021

Contents

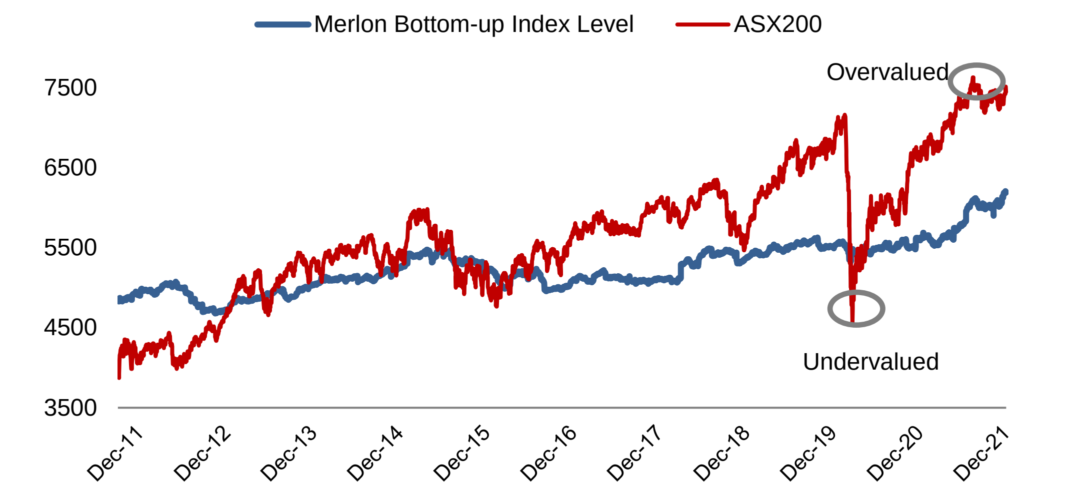
Neil Margolis

Market Outlook and Portfolio Positioning

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 2% during the quarter.

Market approximately 20% overvalued using consistent bottom-up approach

Figure 1: Merlon bottom up market valuation vs ASX200 level



Source: Merlon

An overview of Merlon's approach and prior views

Our individual company valuations have been established using our estimates of sustainable free-cash-flows and franking, discounted at consistent mid-cycle interest rates and risk premiums. Our valuations are long-term and more stable than fluctuating share prices, creating good opportunities for patient long-term investors. Merlon's portfolio comprises our best research ideas, based on long-term valuations and analyst conviction.

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 complacent with regard to stock specific risks. This lens on valuation dispersion is more useful than trying to predict when the market will price in "mid-cycle" interest rates and long-run average risk premiums.

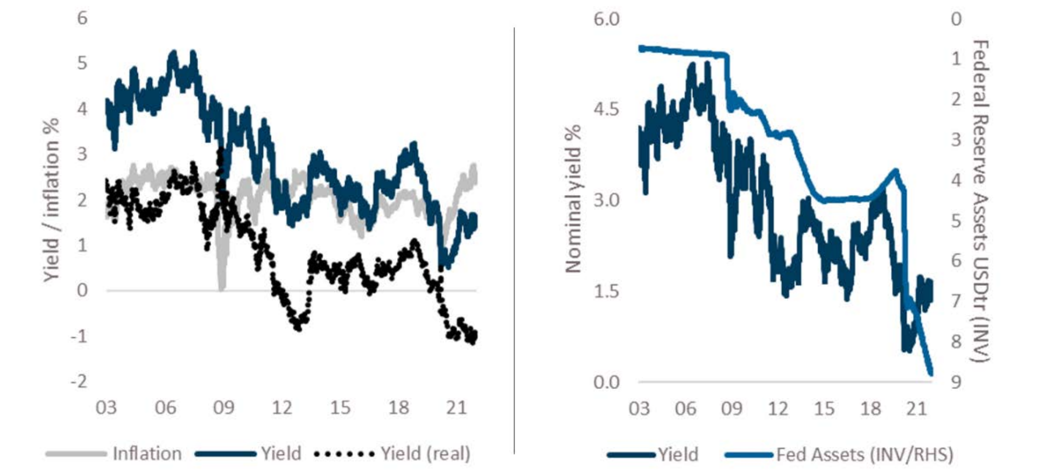
Complacency that inflation will be transitory is reducing

We always maintain a long-term view. In our **March 2020 COVID Roadmap** we were optimistic that there would be a vaccine, herd immunity would develop, and ordinary life could bounce back. In our **March 2021 Outlook for Interest Rates and Inflation** paper, we noted extreme complacency from investors that inflation would be transitory notwithstanding supply chain disruptions and record stimulus induced demand. We also noted our long-term approach had caused our portfolio to lag the market which was being driven higher by some stocks and sectors extrapolating record low rates almost indefinitely.

Market Outlook

At the macro level, and despite the emergence of the Omicron COVID-19 variant, long-term, through-the-cycle inflation expectations have recovered to settle at 2.4%, above long-term averages of 2.0%. This reflects bond market expectations that the currently elevated inflation prints will likely prove largely transitory. Yet, against conventional expectations nominal yields have undershot, an intentional outcome of consistent and aggressive asset purchases by the US Federal Reserve (the Fed) and other central banks. As a result, real yields have remained firmly negative over the course of the pandemic.

Figure 2: Yield vs policy



Source: Federal Reserve of St. Louis. Calculations: Merlon. Inflation: measured as 10-year break even rate. Yield: measured as 10-year US treasury bond yield.

The prescribed play for the Fed appears to be to ensure negative rates are maintained until COVID is eradicated or endemic. At this point, the Fed's ~~un~~conventional quantitative easing (QE) program can be tapered and allowed to reverse over time on maturation of government, mortgage, and corporate securities.

While difficult to unwind asset purchases, failure to do so will only stoke further inflation

History would suggest, however, that this policy exit is far from probable. In fact, it could be argued that nominal yields have been suppressed by this function for more than a decade, rendering it a structural feature of markets. On this basis, and given current elevated levels, its removal may no longer be possible at any meaningful level, given the instability it could cause.

Of course, the counter-risk to this would be more persistent inflation than what is currently priced into markets, forcing a more aggressive Fed response in the form of a more pronounced QE reversal.

Further, nominal yields below inflation are not a normal outcome. Investors typically demand a return that at least compensates for the effects of inflation on capital. Should the Fed step back to allow a more market-determined pricing structure (whether via an orderly

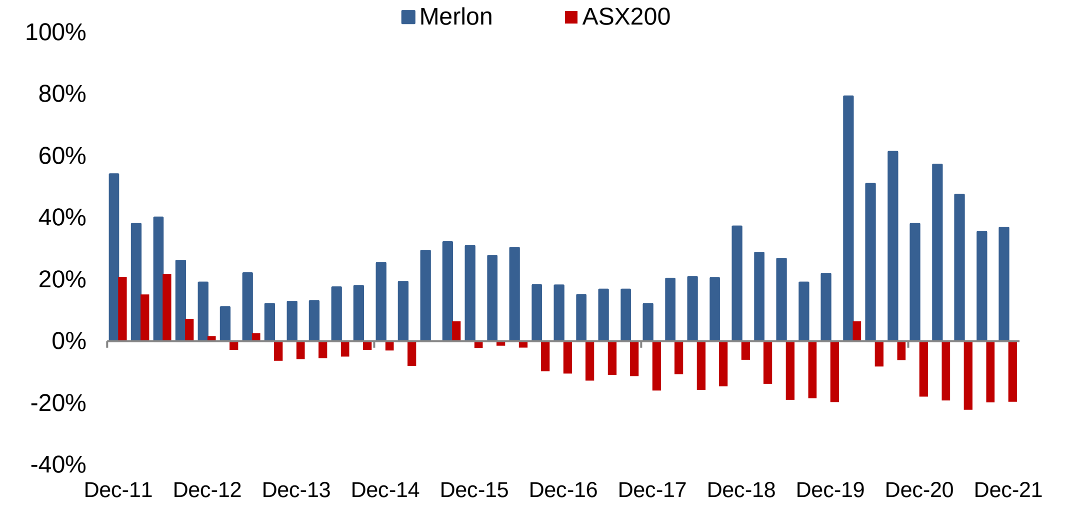
Higher nominal yields favour companies generating cash flow now over promises in future

normalisation of policy or forced via persistent inflation), we could see nominal yields rise materially and quickly. The implications of this on equity markets would see company valuations scrutinised in light of the higher risk-free rate. This environment would likely favour near-dated cash flows over promises of cash flow in future.

To this end, the portfolio's focus on cashflows over longer dated growth expectations should perform relatively well compared to the broader market. Tempering this scenario would be an adverse economic response to higher rates, coupled with a 'walk-back' of Fed normalisation.

The Merlon portfolio continues to offer very attractive expected returns…

Figure 3: Expected return based on Merlon valuations



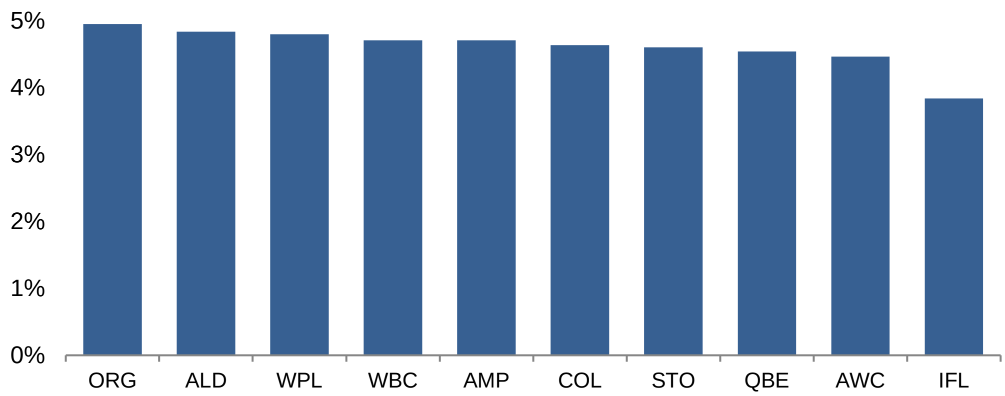
Source: Merlon

Portfolio Aligned to Value Philosophy and Fundamental Research

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.

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

Figure 4: 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:

Origin Energy is Australia's largest electricity retailer, also operating the largest fleet of gas-fired electricity generators. The company has a 27.5% interest in APLNG, an integrated gas extraction, liquefaction, and export operation. The company remains cheap despite the rally in oil, gas, and electricity prices, as the market maintains concerns over the potential for sustained low electricity pricing, driven by subsidised growth in renewables capacity. However, as we have seen, gas prices – the key determinant of electricity prices – have rallied strongly, following a period of lagging international pricing. In addition, given the growing likelihood of early coal power retirements, the current lack of firming capacity, as well as the need for investment in transmission, the risk to electricity prices remains positively skewed.

Ampol is Australia's largest integrated oil refining, fuel distribution and marketing company, operating in a strong industry structure dominated by vertically integrated companies. Volumes have been impacted by COVID-19 related disruptions, yet the company remains in a strong position to maintain and potentially grow share as the incentive for independent, non-integrated retail suppliers to enter the market is declining in anticipation of growth in electric vehicles. Operators who own / control their sites remain in a strong position to increase their convenience offering, while extracting strong conventional fuel margins given the long term need for supply of fuels to non-EV drivers. While the market continues to value the company's refining business as a high-risk asset, the Government's underwriting of refining margins has significantly reduced this risk. Ampol's counter-cyclical, cashflow-accretive takeover of Z Energy (ZEL), increases the company's regional market share - and hence buying power – and supply chain infrastructure utilisation.

Woodside Petroleum remains undervalued relative to our assessment of value, and despite the rally in oil prices. The market is currently discounting the value of Woodside's cash-generative operating asset base, in addition to its very large contingent 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 should further support prices over the medium-term, regardless of a transition to renewable energy generation. While the proposed BHP Petroleum merger is roughly neutral to our valuation and conviction, it intelligently provides access to capital to develop its Scarborough project, amidst what is an increasingly favourable contract-pricing environment.

Westpac is undervalued with the market assuming returns are structurally lower as a result of lower interest rates and higher operating and compliance costs. Despite having a similar business mix and track record of "underlying returns" relative to CBA, the bank continues to trade at an unusually large discount reflecting less confidence in management, persistent mortgage market share losses, a higher cost base than peers and recurring "non-recurring" items. We expect these concerns to ease over time, with investors rewarded with a 7% mid-cycle free cash flow yield in the interim.

AMP finally announced the demerger of its private markets fund manager, which we believe could trade between $2.5b and $4b (once growing again), including $1b in sponsor investments. This implies 5-8% of funds under management, supported by peer valuations and the recent sale of $6b infrastructure debt FUM to Ares for ~7% of FUM or ~10% including sponsor investments. With a market cap of only $3.2b, this implies negligible value for the remaining businesses, including $68b in contemporary platform FUM, a well-funded low cost bank with $21b loan book, a New Zealand wealth business, surplus capital (including the "board buffer") and currently loss-making advice and master trust businesses (we assume zero long-term value for these). The challenge will be successfully exiting the loss-making businesses without impacting the growing valuable businesses within the group. Governance failures have been largely addressed with a renewed board and management.

Coles remains attractively priced relative to other "defensive" sectors that are included in the "bond proxy" group. Coles and Woolworths operate under an umbrella of a sound industry structure, provide long term inflation protection, have minimal debt and are still generating margins below historic levels despite the COVID demand boost.

Having merged with **Oil Search**, a company the portfolio previously owned, **Santos** is now a top-ten position in the portfolio. We voted against the merger as we assessed it as having undervalued Oil Search, a view backed by the Independent Expert's valuation. Despite this, we believe Santos is undervalued by the market, albeit less than Oil Search was, as the consolidation of PNG exposures is likely to enable a smoother path to commercialising the undeveloped Papua LNG project. We also expect the company to reassess the less compelling Alaska project, previously pursued by Oil Search. Like with Woodside, 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 should further support prices over the medium-term. As with Woodside, the pricing environment for determining new projects is strengthening.

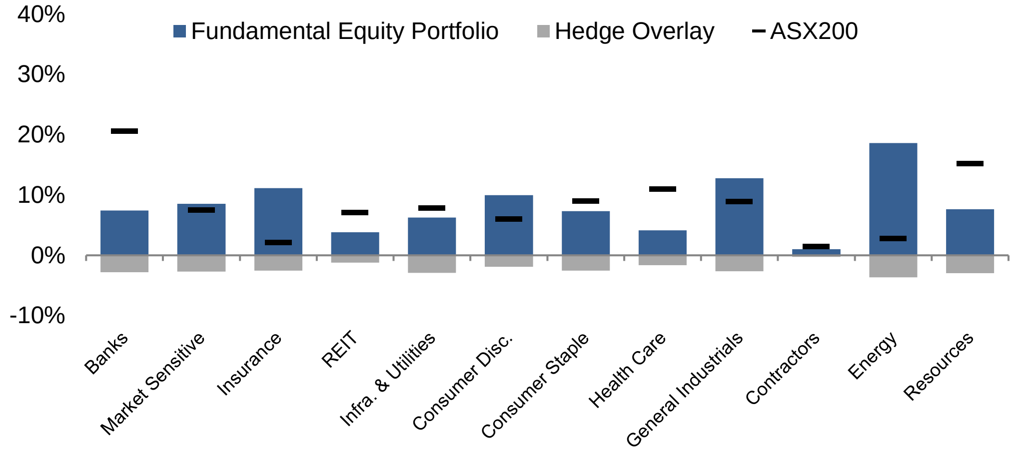
QBE is a leading global insurer, seeing the strongest rate increase environment in 20 years. The company is undervalued relative to our valuation, as the market is concerned by persistent earnings disappointments, as well as shorter term claims risks from business interruption and wild weather. With 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.

The position in **Alumina Limited** was established during the second half of 2020, with COVID-19 related market concerns providing attractive entry points for investment. While the stock has been impacted by the effect of COVID-19 on demand, as well as continued growth in Chinese alumina refining capacity, we expect Alumina's low-cost position to enable it to prevail relative to higher cost peers. Also, we expect China's capacity growth to rationalise and global fiscal stimulus to drive a recovery in demand for aluminium and its alumina-input. The market for alumina has tightened as Noble Group's Jamalco refinery fire in August impacted the supply of alumina, while a military coup in Guinea, the world's largest supplier of bauxite (the feedstock for alumina refining), further destabilised the market.

Newcrest Mining is one of the world's largest gold mining companies. Against the backdrop of a more extended volatile and extended recovery period coupled with further monetary and fiscal stimulus we believe the risk bias in the gold price is positive. While we expect the US Federal Reserve to attempt to taper its Quantitative Easing programme, a negative for gold in the context of higher real yields, we believe the extent to which it can do so will be limited by 1. The potential global wealth effects of asset price declines and 2. Extensive debt levels globally. In this context, we expect Newcrest to generate strong cash flows, benefiting from its position of far longer dated reserves than those presented by peers.

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 at a large discount to the market. 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. The company's stated target to eliminate losses from its financial advice business will lead to further upside.

Figure 5: Portfolio exposures by sector (gross weights)



Source: Merlon

Figure 6: Portfolio Analytics[ii]

	Portfolio	ASX200
Number of Equity Positions	34	200
Active Share	81%	0%
Merlon Valuation Upside	37%	-20%
EV / EBITDA	11.9x	17.8x
Price / Earnings Ratio	13.5x	20.7x
Price / Book Ratio	2.6x	5.7x
Mid-cycle Free Cash Flow Yield	7.4%	5.3%
Distribution Yield (inc. franking)	6.8%	5.8%
Net Equity Exposure	70%	100%

Source: Merlon

The hedge overlay offers material downside protection

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

There were two new investments and one complete exit during the quarter

December Quarter Portfolio Activity

During the quarter, we established new positions in **Lend Lease** and **APA Group**, both at half our maximum weight.

Lend Lease is a vertically integrated international property and investments group with operations in Australia, Asia, Europe and Americas. Following the costly exit of the troublesome engineering business acquired in 2011, the core construction business is low risk and strongly cash generative with both work-in-hand and margins at cyclical lows. The $40b unlisted property funds business has earnings and valuation upside relative to peers, particularly if the strategy to grow via internally developed projects is successful. The capital intensive and riskier development business is currently underperforming, hence the opportunity to invest, but should deliver at least its cost of capital supporting the underlying $4.8b inventory over time. Rising interest rates impacting property values and higher levels of staff turnover during restructuring present risks but these are adequately compensated for in our view with the company trading at the lowest price to its net tangible asset backing in more than 15 years.

Australian Pipeline Trust (APA) is Australia's largest natural gas infrastructure business with over 15,000 kilometres of natural gas pipelines, connecting sources of supply and markets across mainland Australia. The company is undervalued relative to our valuation, as the market remains concerned about decarbonisation and electrification trends, resulting in an overly pessimistic view on the duration of cashflows from APA's portfolio of assets. The market is also highly concerned about the prospect of poor capital allocation, initially associated with US expansion plans and more recently the stemming from the bidding war for Ausnet. We initiated our position in APA when the share price was trading close to our downside scenario, which assumes gas has zero value beyond 2050 and incorporates a $1.5 billion haircut for undisciplined M&A activity.

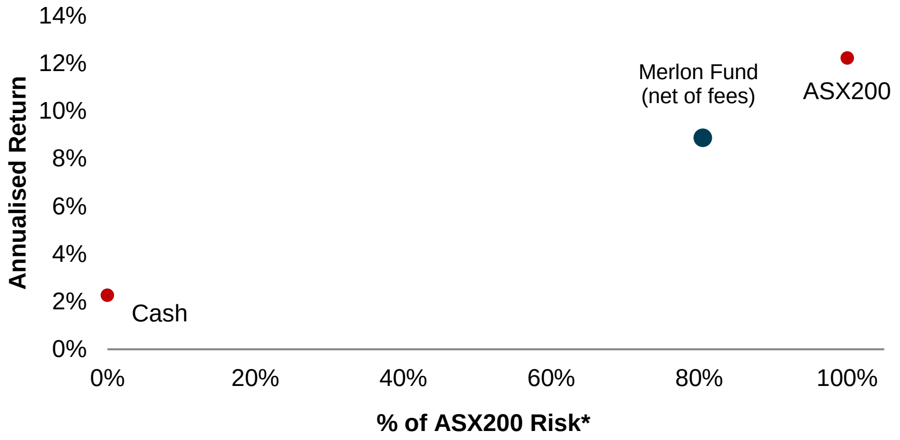
We also added to existing positions in **Suncorp**, **Qantas** and **Westpac**. The position in **Santos** was inherited via the **Oil Search** merger.

These additions were funded by the complete exit of **Sandfire** flagged last quarter, following a risky and expensive acquisition of a Spanish mine, and some profit taking in **Metcash**, **NIB Insurance**, **Southern Cross Media** and **Woodside Petroleum** (early in the quarter). We also partly reduced but retained smaller investments in **A2 Milk** on the back of a very weak result reducing confidence in the turnaround and **Aurizon** on the back of a very disappointing expensive acquisition of a non-coal haulage business to increase the popularity of the group with other investors.

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	1.6	-3.0	2.0	7.1	7.5	5.4	6.7	8.9
70% ASX200 / 30% Bank Bills	1.9	1.6	3.2	12.8	10.9	8.3	7.9	9.3
ASX200	2.8	2.3	4.6	18.5	14.9	11.1	10.4	12.2
Average Daily Exposure	70%	70%	67%	69%	68%	68%	68%	69%
Gross Distribution Yield	0.4	1.3	3.1	6.5	7.0	7.0	7.2	7.7

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 September 2021.

Figure 7: Rolling Ten Year Risk vs. Return (%p.a.)[ii]



Source: Merlon

Markets continued their gains during the quarter, while oil prices, inflation and treasury yields all rose…

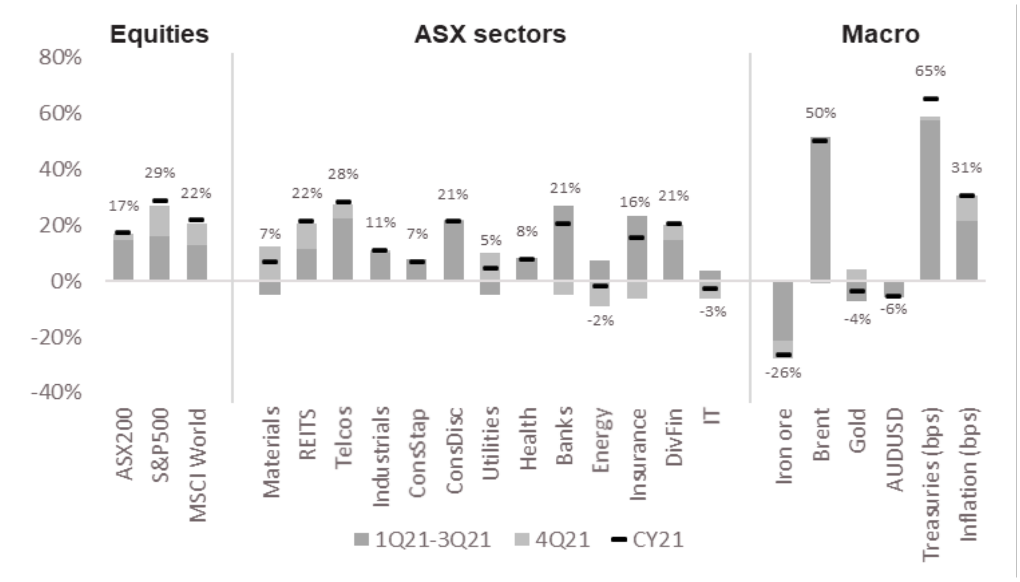
Market Review

Global markets added another 11% during the quarter to complete the calendar year up 29%. The Australian market lagged during the quarter, however, leading to a return of 18% for the year. The relatively poor quarter saw the banking sector suffer as CBA announced a lower than expected September quarter trading update. The insurance sector suffered on a reversal of rising yields and concerns global warming will impact margins notwithstanding pricing power in retail and SME insurance.

Despite a strong oil market rally of more than 50% over the year, record seaborne gas prices, and significant consolidation within the sector, energy underperformed during the quarter to finish the year down by 2%. Despite the carbon-driven flow of capital out of the energy sector, we expect the large valuation discount to US peers will close (see Running on Empty).

US treasury yields rallied alongside break-even long-term inflation rates, ensuring real yields ended the year where they began, at -1%. Quantitative easing has been a key driver of this outcome, with the Fed's balance sheet up nearly 20% over the year. We expect an attempt at tapering to occur this year, in conjunction with official rate rises.

Figure 8: Overview of key markets



Data source: Bloomberg, Merlon Capital. Inflation measured as the 10-year break even rate.

Portfolio review

The portfolio underperformed this quarter….

Despite oil prices largely flat over the quarter, and well above pre-COVID levels, energy as a sector underperformed, impacting the portfolio's performance during the quarter. This is in stark contrast to oil and gas majors in the US, which have rallied alongside oil and gas prices.

As noted in this quarter's insight, 'Running on Empty', there appears to be little reason for the large valuation dispersion, which we attribute to a transitory rotation of some investors out of oil and gas exposures. However, as this transition of capital completes, and ahead of the actual transition of energy generation, we believe the valuation arbitrage will close, as investors will ultimately value the strong cashflows generated by these companies.

Other detractors during the quarter included **IOOF Limited**, **Alumina**, **IAG Group**, and **Unibail Rodamco**. and **Aurizon** also detracted, giving up some of their COVID-recovery gains on Omicron concerns. We would note that some of these detractors, including Alumina, have begun the 2022 calendar year strongly, with markets beginning to look through the variant. Positives for the quarter included not holding **Afterpay** and **CBA,** along with being overweight **Origin Energy**, which benefited from greater confidence in electricity prices as well as the sale of 10% of its interest in APLNG. The hedge overlay added 60bps to the Fund's return, partially insulating the Fund from negative returns from the underlying share portfolio.

The calendar year, however, saw larger underperformance as the positive contributions from overweight positions in **Whitehaven**, **New Hope** and **QBE**, and underweight positions in **CSL** and **Afterpay**, were outweighed by overweight positions in **AMP**, **Unibail Rodamco** and **IAG**, as well as underweight positions in **Macquarie Group** and **Commonwealth Bank**. The hedge overlay was a headwind over the calendar year given the strong positive returns from the share portfolio.

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	12.7
Hedge Overlay	-9.1	3.9	-0.9	-2.3	-5.6	-0.9	-1.7	-3.5	-9.3	2.6	-2.8
Fund Return (before fees)	17.7	-5.4	7.5	5.1	17.9	6.1	7.8	12.8	26.7	-0.8	9.9
Fund Return (after fees)	16.6	-6.3	6.5	4.1	16.8	5.1	6.8	11.8	25.6	-1.8	8.9

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	12.7
ASX200	28.8	-6.5	13.2	14.5	15.5	2.2	7.2	18.9	24.3	-5.1	12.2
Excess Return	-2.0	-2.8	-4.8	-7.1	8.0	4.8	2.3	-2.7	11.7	1.7	0.5

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	5.9
Franking	1.7	1.2	2.2	1.5	1.6	2.1	1.9	1.7	2.3	2.5	1.8
Growth	9.8	-12.7	-1.4	-2.8	9.0	-2.9	-0.7	4.3	15.5	-11.9	1.2
Fund Return (after fees)	16.6	-6.3	6.5	5.1	16.8	5.1	6.8	11.8	25.6	-1.7	8.9

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	9.9
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	9.3
Excess Return (before fees)	-2.0	-1.9	-2.4	-4.4	6.6	3.9	1.8	-1.2	8.9	1.3	0.6
Excess Return (after fees)	-3.1	-2.7	-3.4	-5.4	5.5	2.9	0.8	-2.2	7.7	0.4	-0.4

Monthly Distribution Detail: Cents per Unit

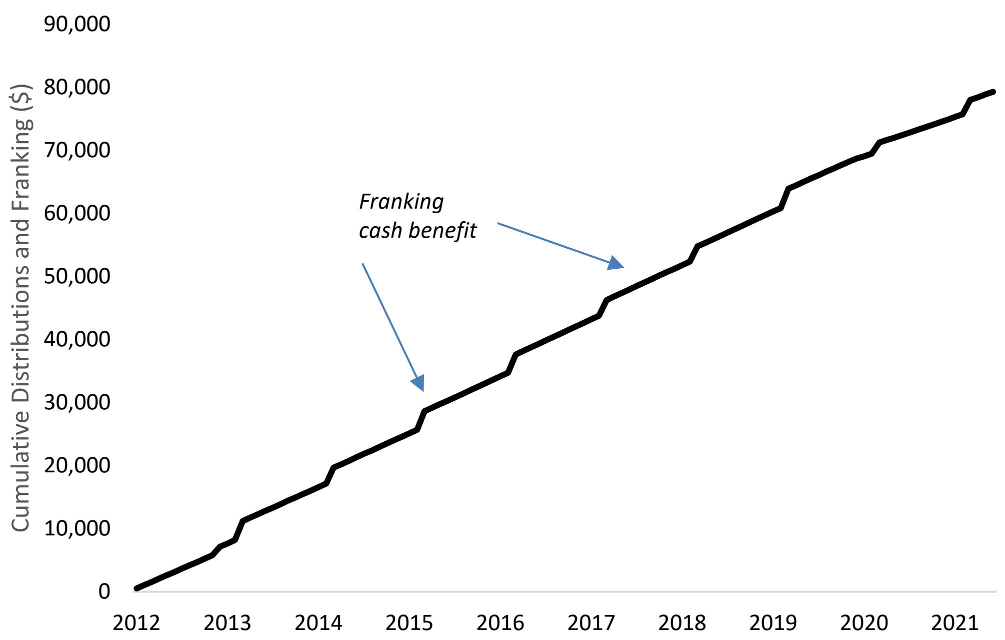
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total	Franking
FY2013	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.29	**6.79**	2.26
FY2014	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.52	**6.13**	1.98
FY2015	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	**6.24**	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 2022…

and the franking level is projected to be in the 70-80% range

Figure 9: Monthly since in July 2012[iii]



Source: Fidante

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Australian Private Health Insurance

COVID-19 - One Year On

Interest Rates & Inflation

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Long-term Dividend Opportunity the Main Game

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Iron Ore is Well Above Sustainable Levels

Boral's High Priced Acquisition of Headwaters

Fund Details^

Fund size	$ 437m	Merlon FUM	$ 1,030m
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 September 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 0.2%, FYTD 0.8%, 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 0.2%, FYTD 0.7%, Year 1.3%, 3 Years 1.3% p.a., 5 Years 1.3% p.a., 7 Years 1.4% p.a.,10 Years 1.4% p.a.

^ Source: Fidante Partners Limited, 30 September 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 since July 2012**

Past performance is not a reliable indicator of future performance.

[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.