

# 30 best ideas. 1 unique equity income fund.

## Research rather than index driven

Merlon’s fund managers refuse to follow the herd, or hug the index. They ignore the skewed weightings caused by the mega-capitalisation banking and mining stocks.

Instead, they invest approximately 3 to 5% of the Fund in each of their 30 best Australian share investment opportunities based on long-term cash-flow based value, sustainable franked dividends and analyst insight.

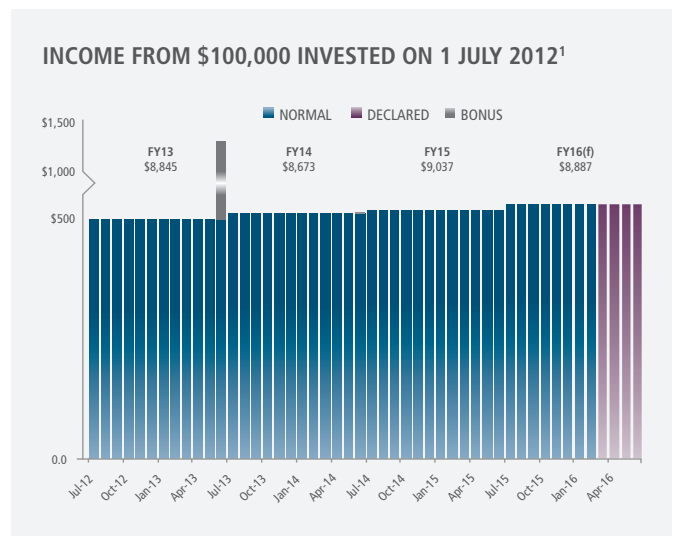
This approach has generated a remarkably consistent income of more than 9% per annum over the past ten years (now paid monthly).

It’s a great story for conservative investors, made more compelling still by Merlon’s use of an options strategy to lower the level of market risk.

### ASX200 LARGEST EXPOSURES COMPARED TO MERLON CAPITAL PARTNERS



## Monthly tax-effective income



Distributions are paid monthly, with up to 11 months advance notice at the beginning of each financial year. Subject to growing corporate profits and minimum franking levels, Merlon aims to achieve an above-market level of tax-effective income that grows each year.

The chart above illustrates the Fund’s income characteristics. The example shows an investor allocating \$100,000 in July 2012, when the Fund moved to monthly distributions. Including franking credits, investors would have received approximately \$8,800 income in each of the past four years, an annual yield of around 8.8%.

These results have been achieved by investing in companies on the basis of fundamental value and sustainable dividends. This approach is enduring and one we believe benefits investors, from a diversification, risk and return perspective.

## Downside protection to smooth the ride

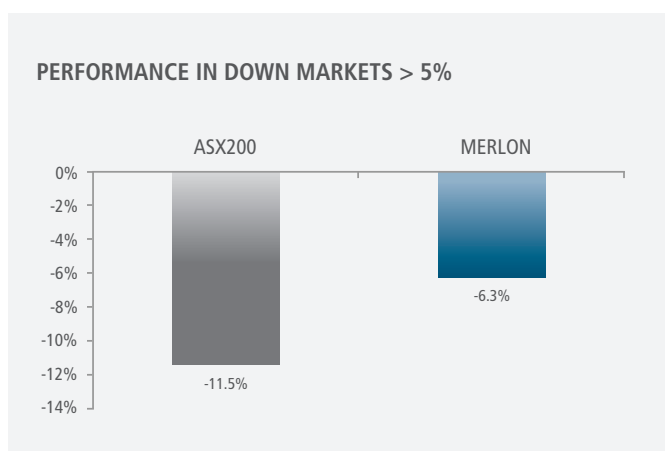
Investors seeking income should be equally concerned about capital preservation, both in terms of losing money and to protect against inflation.

Merlon's first level of defence is only investing in companies deemed to be undervalued on the basis of long-term cash flows and dividends.

In addition, we overlay option protection to target a 30% buffer against market declines while foregoing similar upside in rising markets.

We believe most income seeking and conservative investors would be happy with this trade-off, which is designed to balance short term capital risk with long-term inflation risk.

To illustrate how downside protection has worked in practice, we have analysed all periods since the Fund's 2005 inception when the market has been down more than 5% from its high in the prior three months. The market's average decline during these periods has been 11.5% and the Merlon Fund has, on average, declined 6.3%<sup>2</sup>, illustrating its lower risk profile.



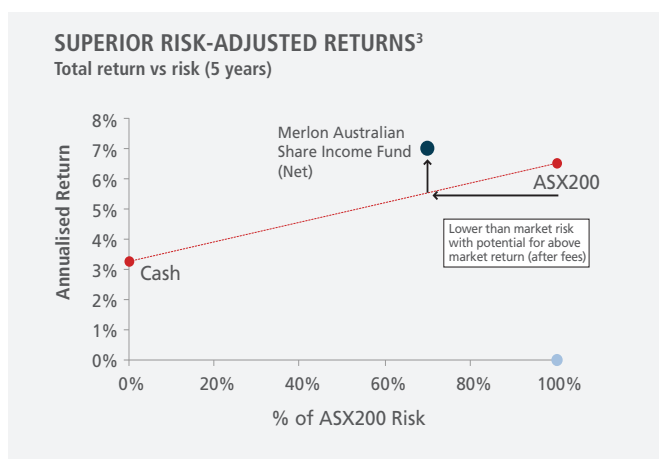
\*Merlon Wholesale Australian Share Income Fund.

1. Income chart based on period from when monthly distributions commenced (July 2012).
2. Merlon Fund return based on daily unit price after fees and assuming reinvestment of distributions.
3. Performance to 29 February 2016. Performance figures are calculated after fees and assume distributions have been reinvested. Total returns above are grossed up for franking credits. % of ASX200 Risk represents the Fund's beta relative to the ASX200.

**Past performance is no indication of future performance.**

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## Potential for capital growth



The combination of well researched, dividend generating Australian shares and option protection may provide the right balance between capital growth and downside protection not found in traditional equity or income investments.

Over the past five years, the Fund has achieved a higher return (after fees) than the market, with only 70% of the market's risk as shown in the chart above.

The Fund's superior risk-adjusted return is a function of:

- An investment style and approach that values sustainable cashflow
- The hedge overlay which targets a reduction in market exposure of approximately 30% without compromising franked income

## A final thought

The Fund's unique make-up makes it a useful way to enhance your clients' monthly income or diversify their Australian equities allocation given limited overlap with more index-focused strategies. If you would like to find out more about the Merlon Australian Share Income Fund, talk to us today. Please contact your Fidante Partners Business Development Manager, or the Fidante Adviser Services Team on **1800 195 853**.

