

Merlon Australian Share Income Fund

Delivering Sustainable Income From Australian Shares

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Sustainable Income

Paid monthly and majority franked

by focusing on capital preservation and growth

Fundamental Research

*Focused on
sustainable cash flow*

Portfolio Diversification

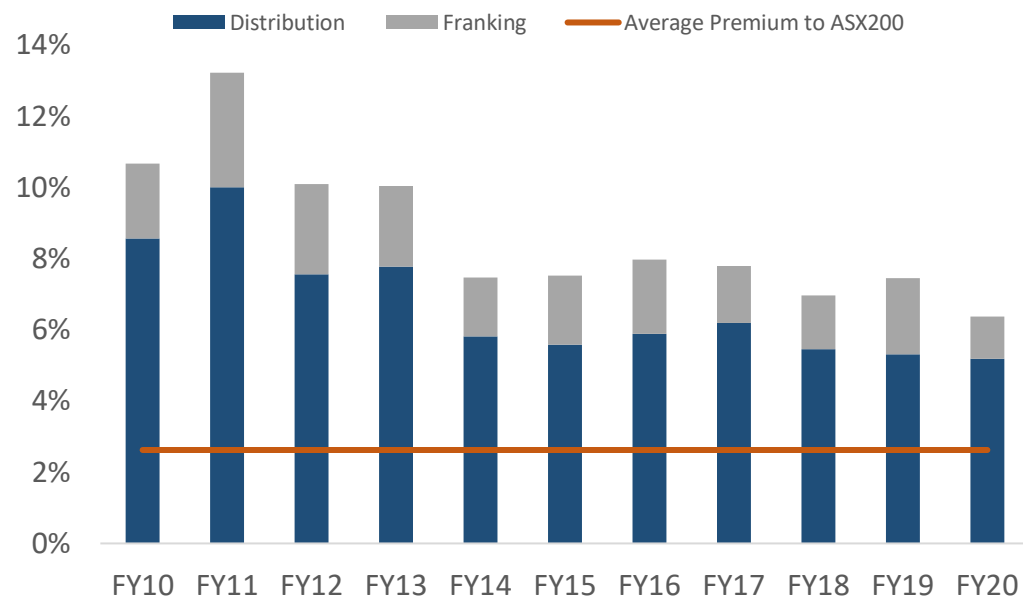
*No reference to
ASX200 weights*

Downside Protection

*Through research &
risk reduction overlay*

Above market income and franking, paid monthly

Historic distribution yield



Source: Merlon, Fidante

Average yield premium of 2.6%

Monthly cash distribution profile excluding franking credits (FY21)

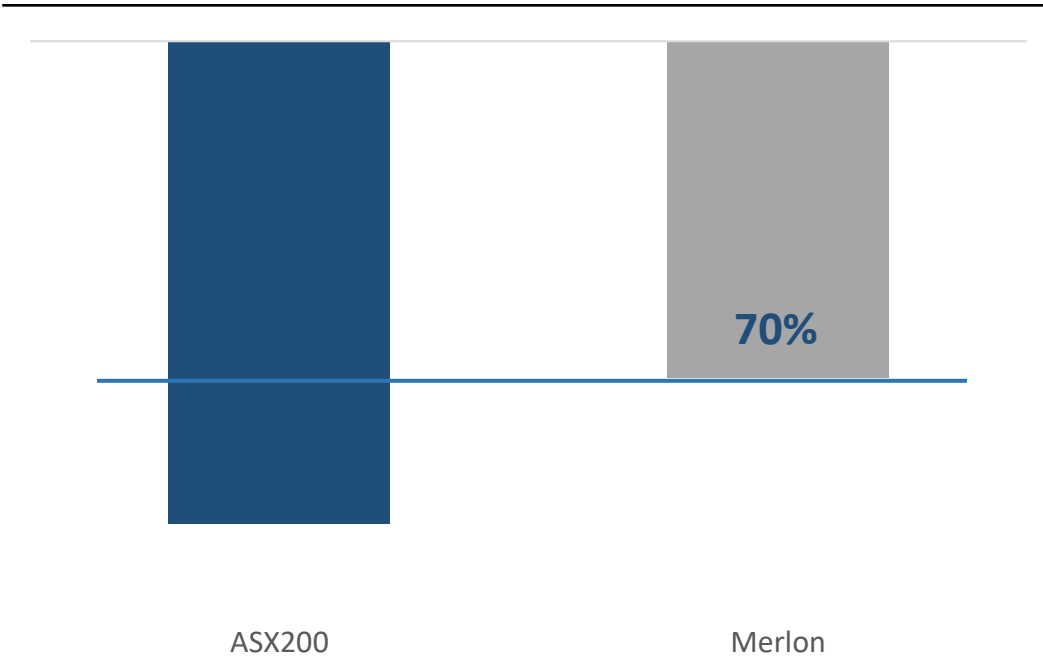


Source: Merlon, Fidante. Estimated gross yield based on monthly distribution forecasts and FY21 franking credits divided by 1 July 2020 net asset value price.

5.6% gross yield

Hedge Overlay acts as a shock absorber in down markets

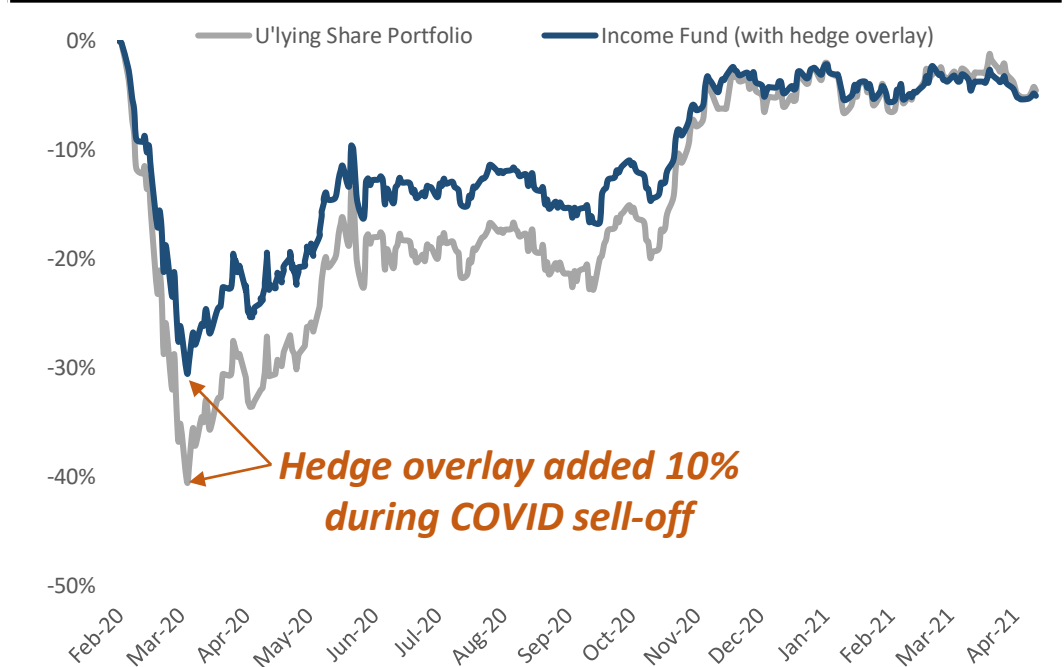
Performance in down markets



Average relative return compared to ASX200 where ASX200 monthly return is negative since June 2010.

On average 30% downside protection

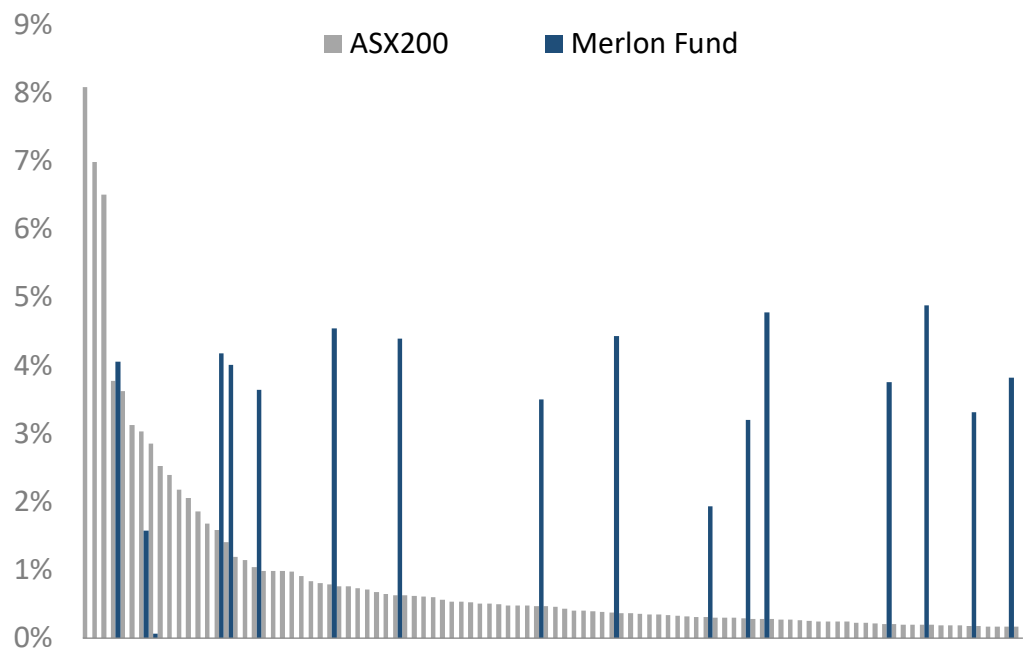
Performance since 20 February 2020



Merlon Australian Share Income Fund compared to the underlying share portfolio over the period 20 February 2020 to 30 April 2021

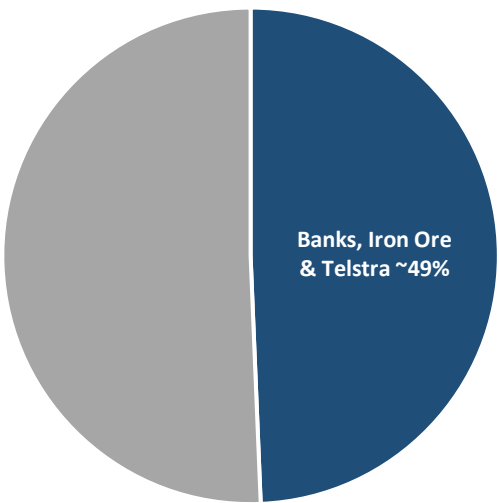
Non-benchmark portfolio provides diversification

The ASX200 is skewed to ultra-large companies



ASX200 index weights relative to Merlon portfolio. As at 30 April 2021

ASX200 dividends have heavily relied on the banks, iron ore & Telstra



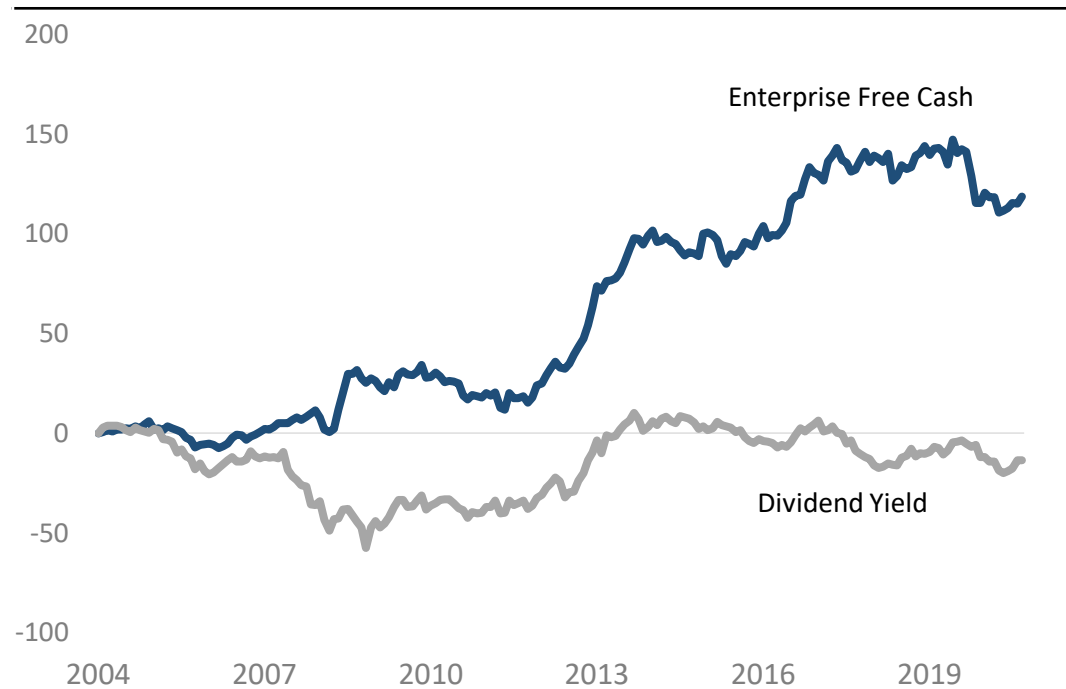
Source: Bloomberg, average contribution to ASX200 gross yield over the last five fiscal years.

More diverse sources of income and growth

A focus on free cash flow provides long term downside protection



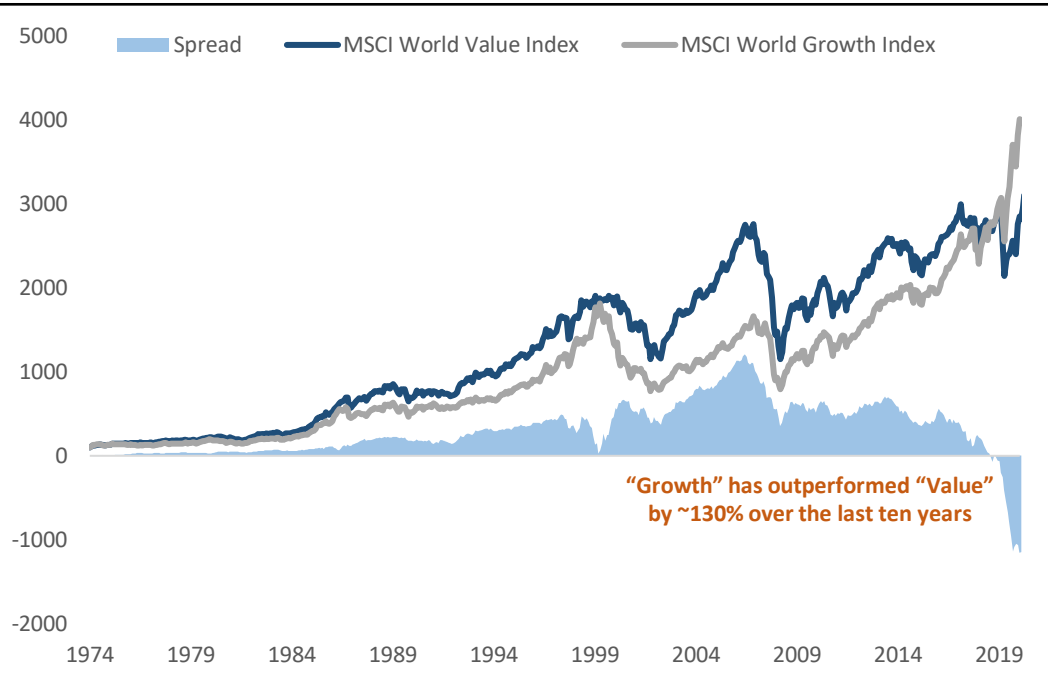
Free cash flow a better measure than dividends



Portfolios are formed using enterprise-free-cash-flow-to-enterprise-value (EF/EV) and dividend yield. Portfolios are formed at the end of each month by sorting on one of the ratios and then computing equally-weighted returns for the following month. The “value” portfolios contain firms in the top one third of a ratio and the “glamour” portfolios contain firms in the bottom third. The analysis is based on S&P/ASX200 constituents and the raw data is from Bloomberg. Risk is defined as annualised standard deviation of monthly returns.

Free cash flow ultimately funds dividends

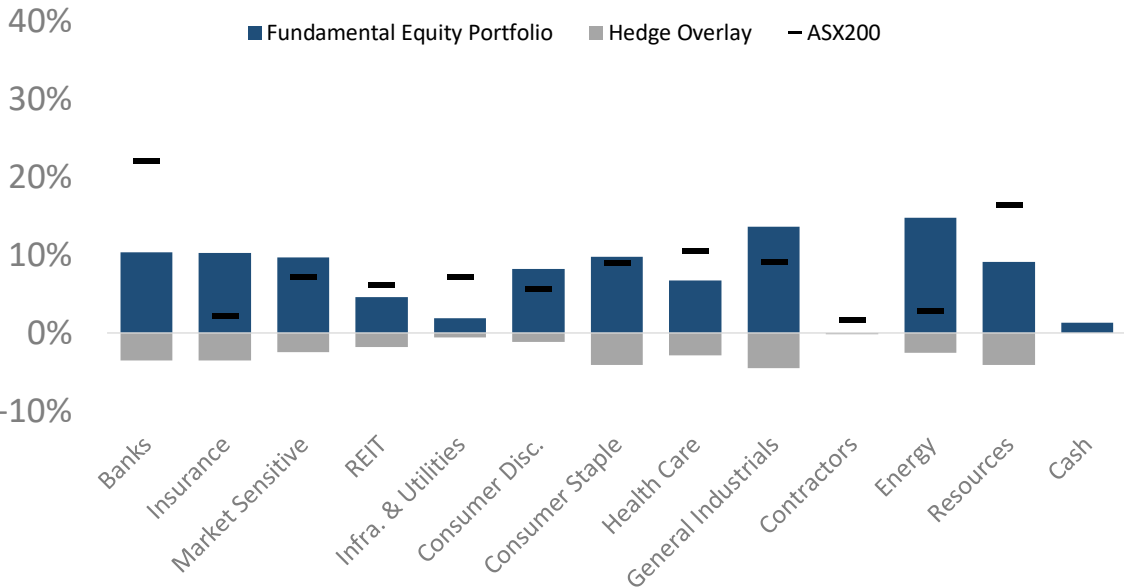
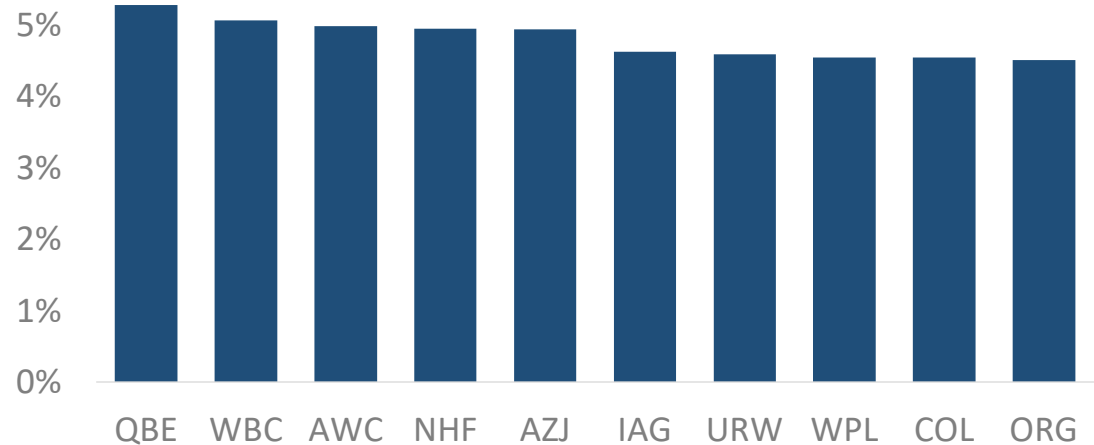
“Growth” vs “Value” - a longer term perspective



Source: Bloomberg, MSCI World Growth and Value index returns. 30/04/2021

Value investing due for a comeback

Current Fund Positioning



Portfolio Analytics (30 April)

Number of Equity Positions

Net Market Exposure

Active Share

Valuation Upside¹

Mid-cycle Free Cash Flow Yield

Gross Distribution Yield

Price / Earnings Ratio

Portfolio ASX200

34 200

67% 100%

80% 0%

59% -21%

8.7% 2.9%

5.8% 4.3%

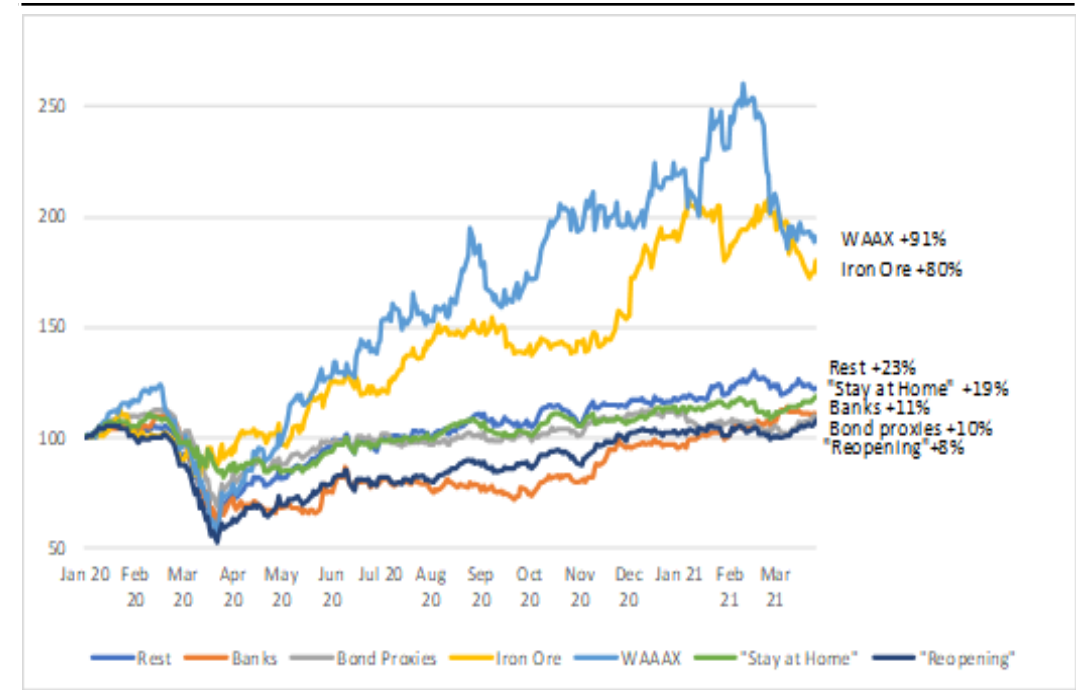
15.2x 20.3x

Portfolio as at 30 April 2021. ¹Valuation Upside based on Merlon proprietary valuations.

COVID-19 - One Year On

- ❑ Market has recovered sharply and strongly
- ❑ Tech and iron ore have led the market recovery
- ❑ Stuck to our investing philosophy
 - ❑ Long term cash flow
 - ❑ Avoiding panic

Drivers of COVID-19 Market Performance to date (TSR)

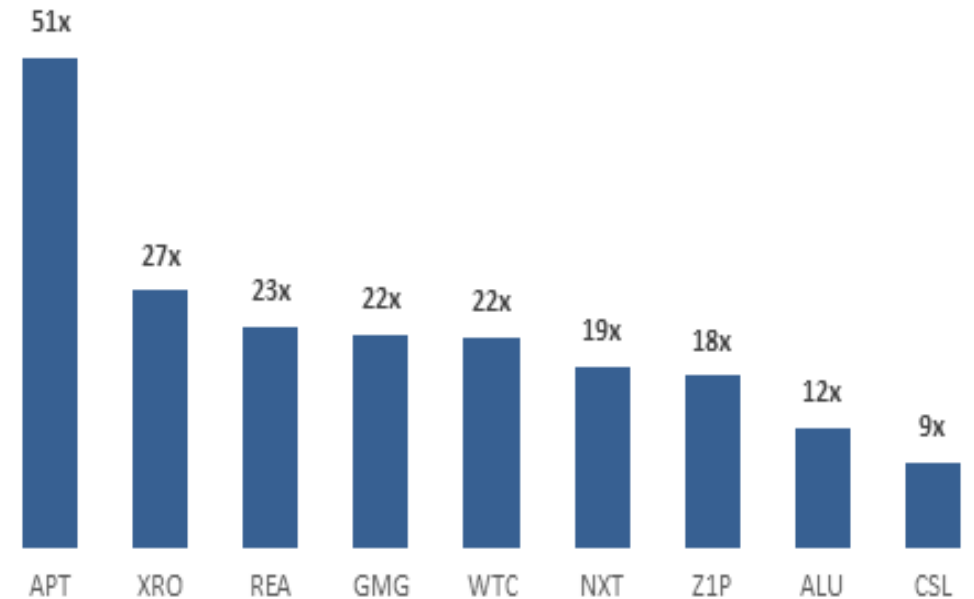


Source: Bloomberg, Merlon

COVID-19 - One Year On

- ❑ Possibility of higher inflation and interest rates
- ❑ Concerns on tighter fiscal policies
- ❑ Continued earnings recovery of cyclicals
- ❑ Parts of the market could be in bubble territory

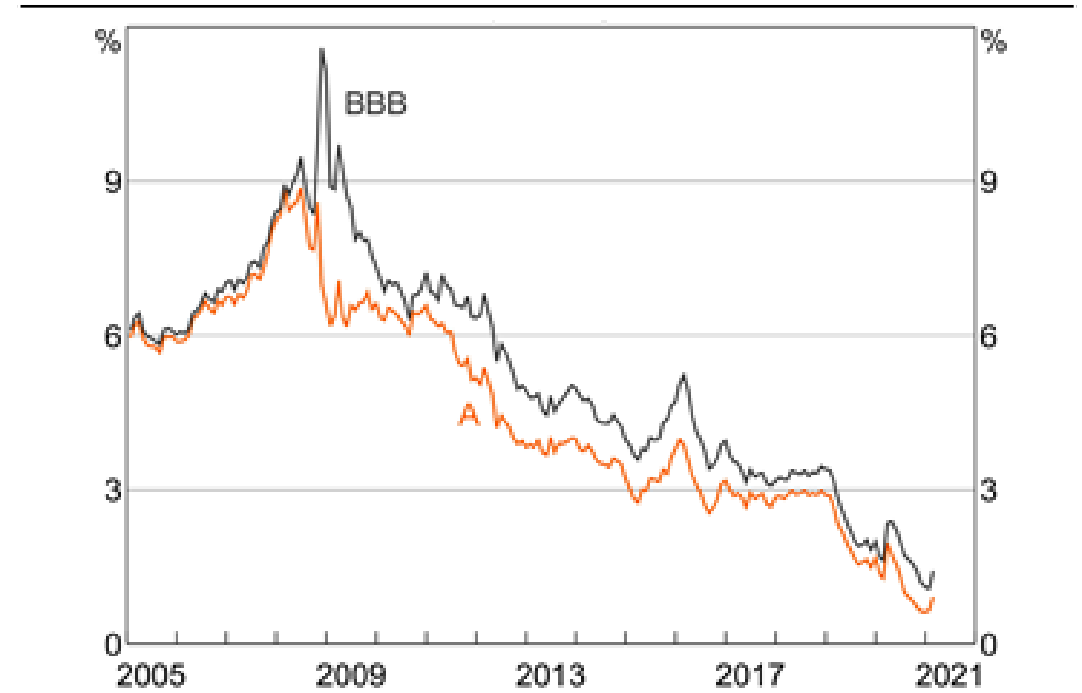
Price to Revenue Multiples for Selected ASX Listed Companies



Source: Bloomberg, Merlon

- ❑ Central bankers dovish
- ❑ Investors complacent that rates will stay low
- ❑ A year of 4%-5% inflation would not surprise us
- ❑ Underweight sectors benefitting from low rates

Australian Non-financial Corporate Bond Yields

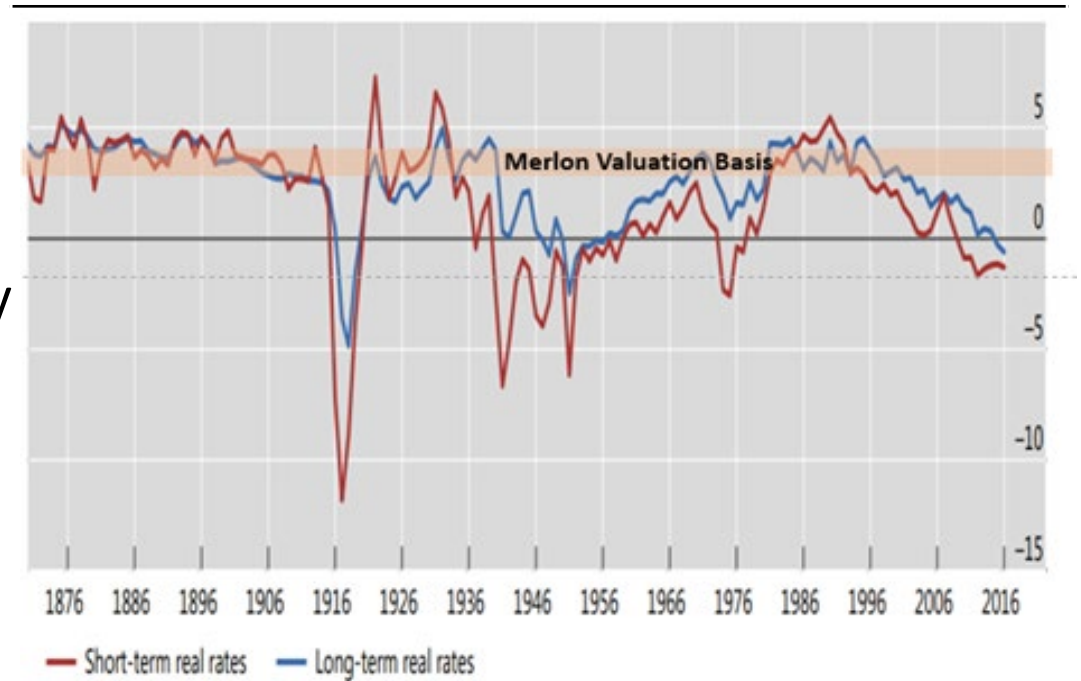


Source: Bloomberg, RBA

Interest Rates & Inflation

- ❑ “Availability Heuristic” drives investor behaviour
- ❑ Low inflation might prove sustainable
- ❑ High and volatile inflation is the norm historically
- ❑ Equity markets are expensive in our view

Global Real Interest Rates

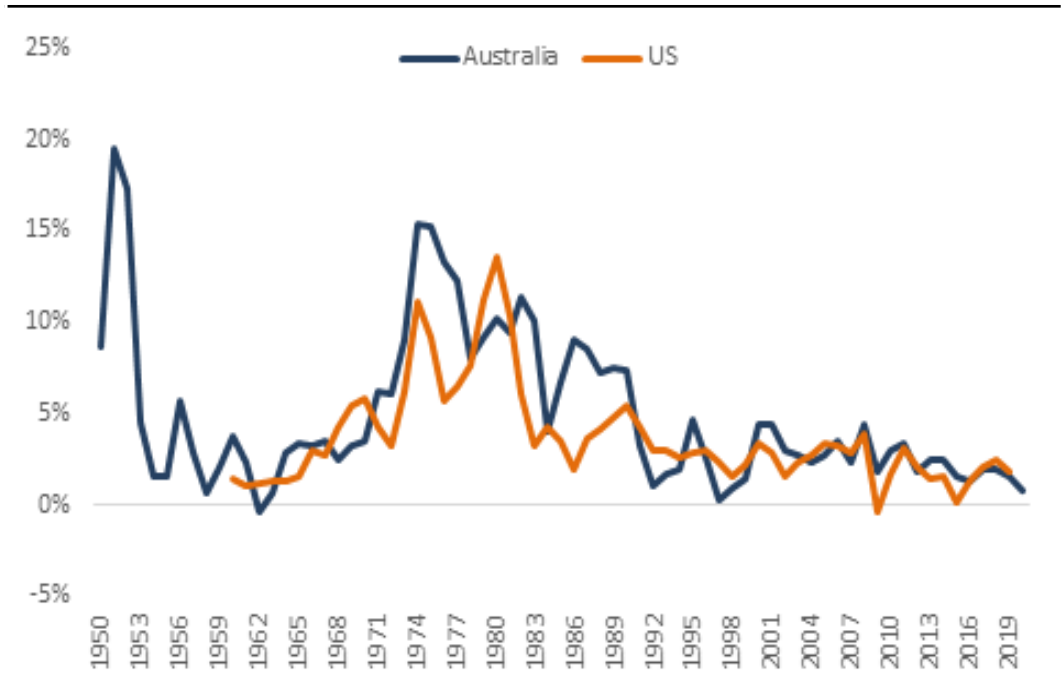


Source: Bloomberg, RBA, Merlon

Interest Rates & Inflation

- ❑ Current monetary policy a regime change?
- ❑ Large fiscal deficits always highly inflationary
- ❑ Australian and global inflation trends are linked
- ❑ We do not view low inflation as permanent
- ❑ Relative valuation between sectors is indifferent

Deficit Funded Wars, Interest Rates & Inflation



Source: Australian Bureau of Statistics, Federal Reserve Economic Data, Merlon

Fund Performance



	Quarter (%)	Year (%)	3 Years (% pa)	5 Years (% pa)	10 Years (% pa)
Fund Return (before fees)	2.0	22.6	5.3	7.4	8.4
70% ASX200 / 30% Bank Bills	5.6	21.7	8.2	8.8	7.8
ASX200	8.0	31.7	10.8	11.6	9.8
Fund Return (net of fees)	1.7	21.5	4.3	6.4	7.3
Gross Income	2.0	7.2	7.1	7.2	8.3
Average Daily Exposure	68%	66%	67%	68%	68%

Performance in Rising Markets



Source: Merlon, Fidante, Average returns (before fees & inc. franking) where the ASX200 return is positive for the fiscal year. FYTD, 2019, 2018, 2017, 2016, 2015, 2014, 2013, 2011, 2010, 2007.

Performance in Falling Markets



Source: Merlon, Fidante, Average returns (before fees & inc. franking) where the ASX200 return is negative for the fiscal year. FY2020, 2012, 2009, 2008.

Returns for the Fund and ASX200 grossed up for accrued franking credits and the Fund return is stated net or gross of fees (as applicable) as at 30 April 2021. Past performance is not a reliable indicator of future performance. Gross Income represents the income return of the fund inclusive of franking credits (after fees).

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Downside Protection

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A bit more about your presenters



Neil Margolis
Lead Portfolio Manager

Neil Margolis founded Merlon Capital Partners in May 2010. Prior to Merlon, Neil was Portfolio Manager of Challenger Limited's Australian Share Income Fund, having established the strategy in 2005. Neil joined Challenger in 2004 as a Senior Industrials Analyst from Alliance Capital Management where he held the position of Senior Equities Analyst. Neil was with Alliance for three years, and prior to that worked for JP Morgan Investment Bank.

Neil holds a B.BusSc (Hons), CA and CFA.



Hamish Carlisle
Analyst/Portfolio Manager

Hamish joined Merlon Capital Partners as a Principal in July 2010. Hamish was previously Head of Research, Asia Pacific Equities at AMP Capital Investors. Prior to AMP, Hamish was a Senior Director and Head of Australian Banks Research at Merrill Lynch Equities. He has also held positions at Burdett, Buckeridge, Young and National Australia Bank. Hamish holds a MBA with honours from The Wharton School, University of Pennsylvania.

Hamish holds a B.Comm (Hons) and an MBA (Hons).



Joey Mui
Analyst/Portfolio Manager

Joey Mui joined Merlon Capital Partners as a Portfolio Manager/Analyst in April 2016. Prior to Merlon, Joey was a Portfolio Analyst for AMP Capital Multi-Strategy equity funds responsible for investments in the real estate sector in Australian and Asian equities. He also completed internships in the Equity Research teams at JP Morgan and Nomura.

Joey holds a B.Comm (Distinction) and CFA.

Thank you