

# Merlon Australian Share Income Fund

Fundamental research

Portfolio diversification

Downside protection

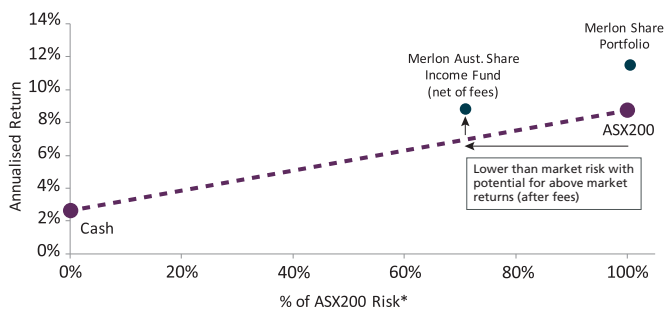
This focus on capital preservation and growth delivers

Sustainable income

**The Merlon Australian Share Income Fund (the Fund) is a unique equity income fund aiming to deliver superior risk-adjusted returns and higher income than the Australian share market.**

Over the last 7 years, the Fund has matched the market's return (after fees), with 30% less risk, as shown in the chart below.

**Total returns vs risk (7 years)**



Returns for the Fund and ASX200 grossed up for accrued franking credits and the Fund return is stated after fees as at 31 March 2018. Merlon Australian Share Income Fund franking 2.1% p.a., ASX200 franking 1.5% p.a. \*% of ASX200 Risk represents the Fund's statistical beta relative to the ASX200.

Through a combination of *fundamental research*, *portfolio diversification* and *downside protection*, we aim to provide investors with **sustainable, growing, tax effective monthly income**.

## Fundamental research

Focused on sustainable cash flow

Income is only sustainable if capital is preserved and grows over time. Merlon's Australian share portfolio comprises only our best investment ideas and provides the foundation for this income sustainability.

Our best ideas are selected based on our own rigorous research focused on companies where the market under-

appreciates their true cash flows. After all, it is this cash flow that underpins the level of dividends and franking credits that flow through to investors.

## Portfolio diversification

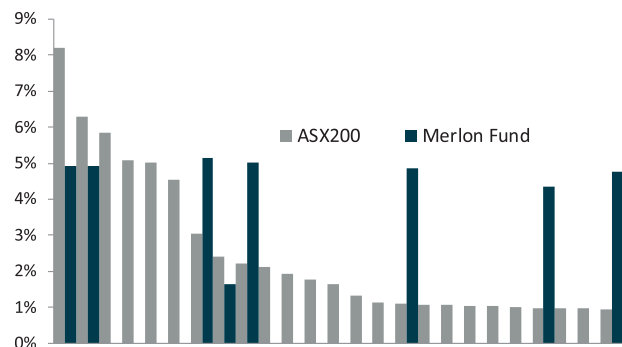
No reference to ASX200 weights

Many investors in index-tracking funds are actually much less diversified than they think, increasing concentration and portfolio risk.

At Merlon, we refuse to follow the herd, or hug the index. We ignore the skewed weightings caused by the mega-capitalisation banking and mining stocks, which comprise over 50% of the total value of the S&P/ASX 200 Index.

Instead, we invest approximately 3 to 5% of the Fund in each of our 30 best Australian share investment opportunities based on sustainable cash flow, valuation and analyst conviction. This leads to a more diversified portfolio with more upside potential for income and growth.

## ASX200 Largest Exposures Compared to Merlon Fund (as at 31 March 2018)



This approach has generated a remarkably consistent income of more than 8% per annum each year (paid monthly).

## Downside protection

Through research & hedge overlay

Investors seeking income should be equally concerned about capital preservation. Merlon's first level of defence is only investing in companies deemed to be undervalued on the basis of sustainable free cash flows.

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

Importantly, investors retain the benefits of 100% of the dividends and franking credits from the underlying share portfolio, with 30% less risk than the market. This smoother return profile helps to deliver investors more sustainable income.

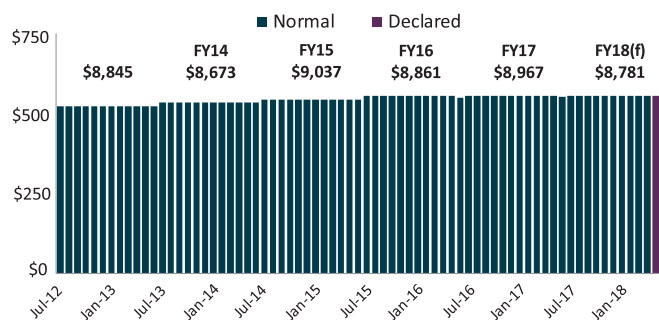
## Sustainable income

Paid monthly and majority franked

### The outcome

By combining fundamental research, portfolio diversification and downside protection, we aim to provide investors with sustainable, growing, tax effective monthly income.

## Monthly income from \$100,000 invested on 1 July 2012



Income returns exclude 'bonus income' from above-normal hedging gains of \$849 in FY13 and assume no bonus income in FY18 estimate. Income includes franking credits of: \$2,420 (FY13), \$2,120 (FY14), \$2,356 (FY15), \$2,057 (FY16), \$2,159 (FY17) and \$1,970 (FY18 estimate).

The chart on the left 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 each year, 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.

## About Merlon

Merlon Capital Partners is an Australian-based boutique fund manager established in May 2010. The business is majority owned by its principals, with strategic partner Fidante Partners providing all business and operational support. The structure allows the Merlon team to focus solely on the management of client investments.

As at 31 March 2018, Merlon was managing approximately \$1.6 billion on behalf of institutional investors, charities and endowments and retail investors.

## Fund Characteristics

**Inception date:** 30 September 2005

**Objective:** The Fund aims to provide a higher level of tax-effective income with a lower level of risk than the S&P/ASX 200 Accumulation Index, whilst also providing the potential for capital growth and inflation protection over the medium to long term.

**Benchmark:** S&P/ASX 200 Accumulation Index

**Minimum initial investment:** \$10,000, or \$1,000 with Regular Savings Plan

**Management fee:** 0.95% p.a.

**Distribution frequency:** Monthly

**APIR code:** HBC0011AU

**ASX mFund code:** MLO02

## Find out more

To find out more, please contact your financial adviser, call the Fidante Partners Investor Services team on 13 51 53, or visit us at: [www.merloncapital.com.au](http://www.merloncapital.com.au)

The information contained in this publication is current as at 31 March 2018 unless otherwise specified and is provided by Fidante Partners Limited, ABN 94 002 835 592, AFSL 234668 (Fidante Partners) the responsible entity and issuer of interests in the Merlon Australian Share Income Fund ARSN 090 578 171 (the 'Fund'). The information in this document is up to date as at the time of preparation and is intended for adviser use only. Merlon Capital Partners Pty Ltd ABN 94 140 833 683 AFSL 343753 (Merlon) is the investment manager of the Fund. This information is intended as general information only and not as financial product advice and has been prepared without taking into account any person's objectives, financial situation or needs. Because of this each person should, before acting on any such information, consider its appropriateness, having regard to their objectives, financial situation and needs. Each person should also obtain a copy of the product disclosure statement (PDS) and any additional information brochure (AIB) and consider the information in those documents (including the information about risks) before making any investment decisions. If you acquire or hold an investment in the Fund we will receive the fees and other benefits disclosed in the PDS and any AIB for the Fund. We and our employees do not receive any specific remuneration for any advice provided to you. However, financial advisers may receive fees or commissions if they provide advice to you or arrange for you to invest in the Fund. Some or all of the Fidante Partners related companies and their directors may benefit taxation consequence of investing. Past performance is not a reliable indicator of future performance. A copy of the PDS and any AIB can be obtained from the Fidante website: [www.fidante.com.au](http://www.fidante.com.au) or by calling the Adviser Services Team on 1800 195 853.