

Merlon Australian Share Income Fund

Teleconference – 18 July 2017

Neil Margolis and Adrian Lemme

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How Merlon Approach is Different

Fundamental Research

*Focused on
sustainable cash flow*

Portfolio Diversification

*No reference to
ASX200 weights*

Downside Protection

*Through research &
hedge overlay*

This focus on capital preservation and growth delivers

Sustainable Income

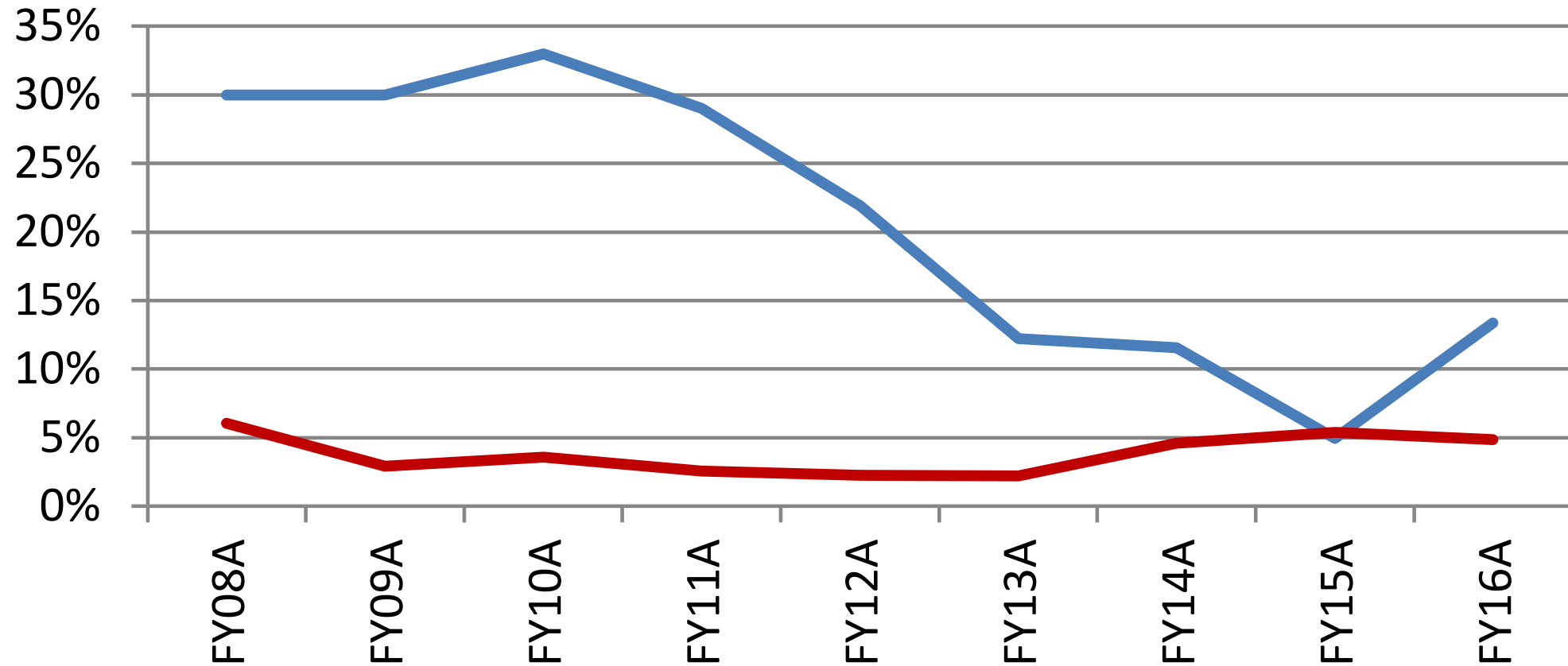
Paid monthly and majority franked

Outline

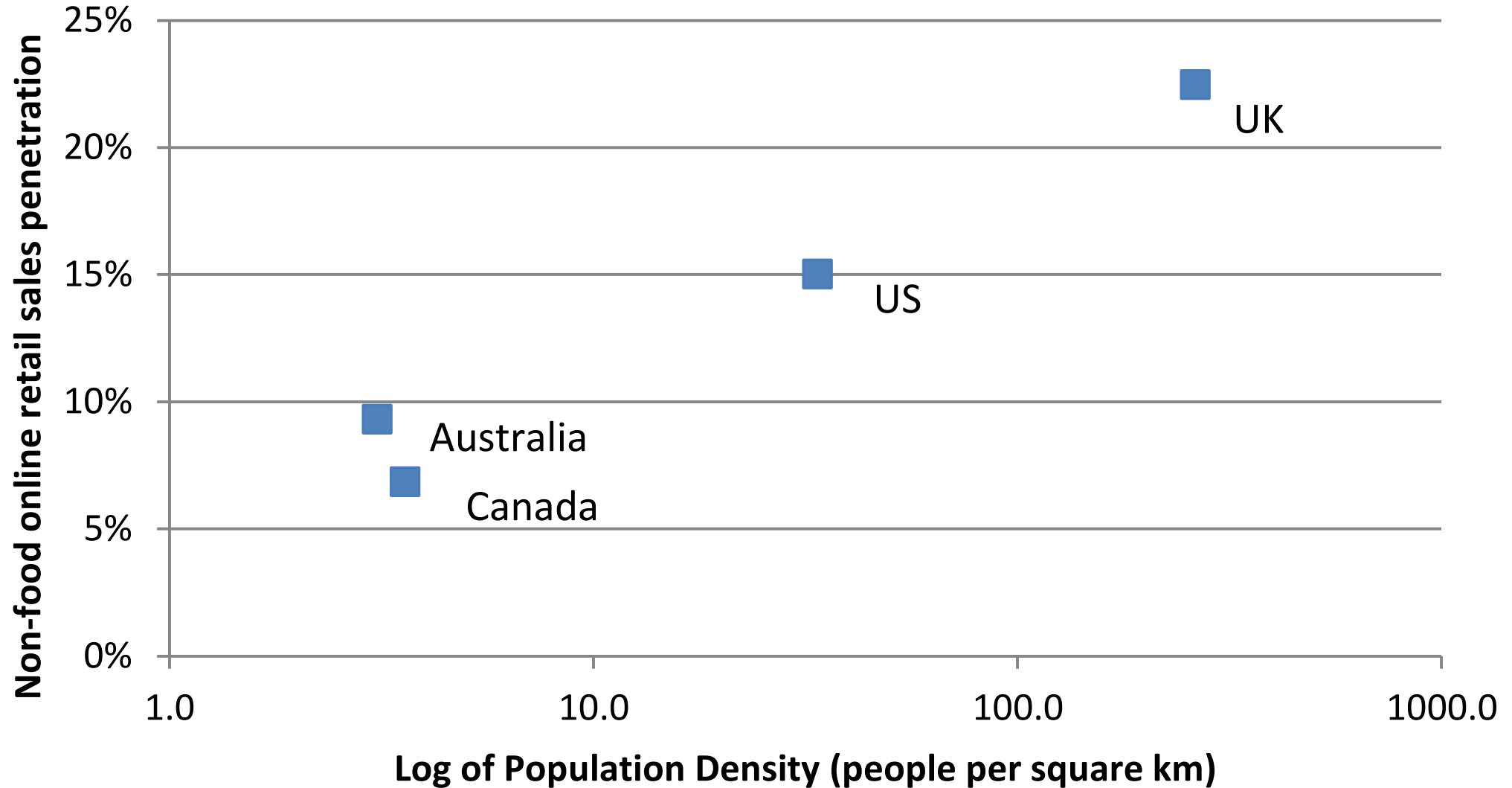
- ❑ Amazon not introducing internet to Australia
- ❑ Value investing – an Australian perspective
- ❑ Fund positioning and performance

Online retail is maturing

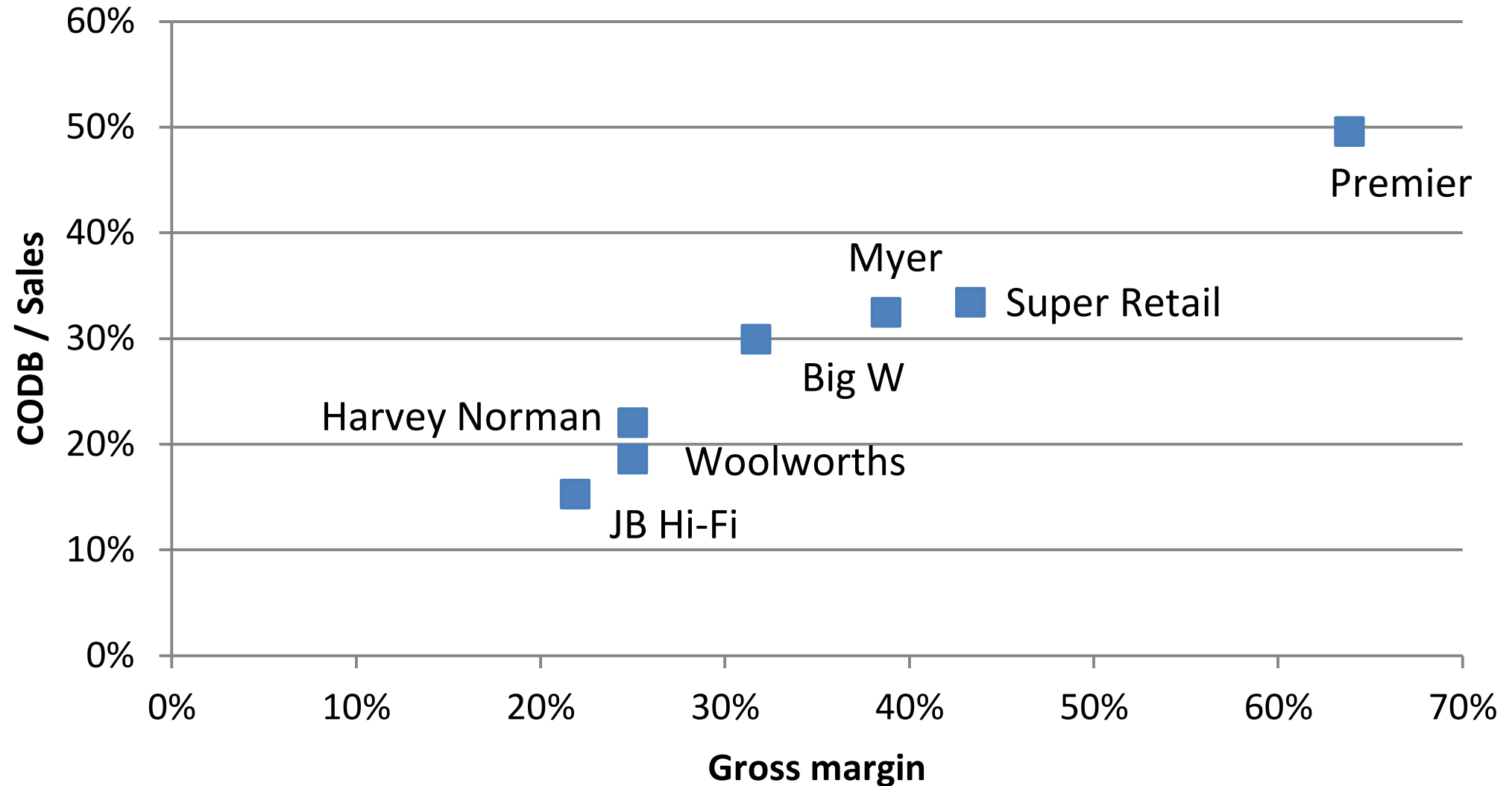
— Australian Non-Food Online Retail Sales Growth
— Australian Non-Food Retail Sales Growth



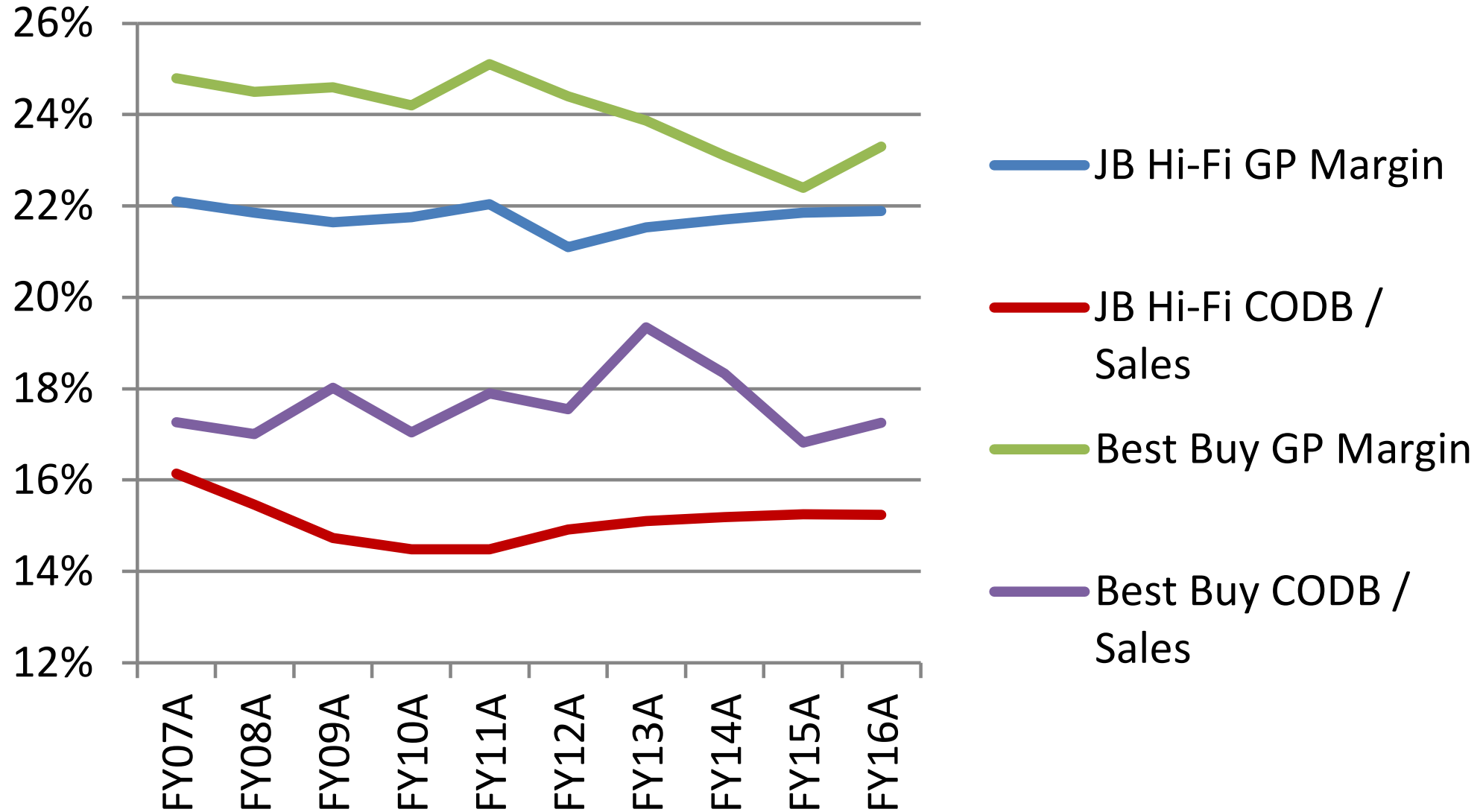
Australia is more similar to Canada than the US



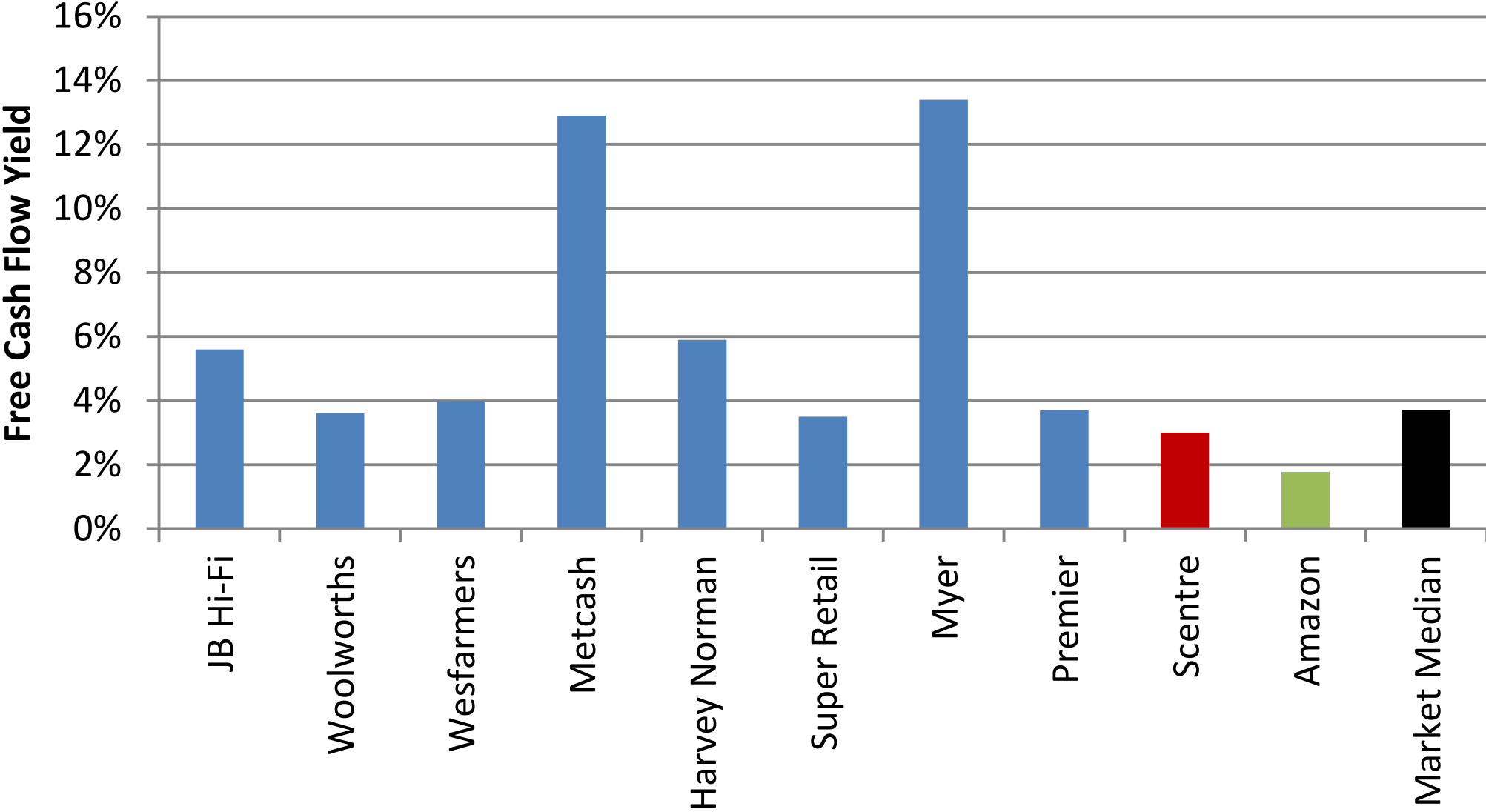
Retailers with high gross margins and high costs most at risk



Comparing JB Hi-Fi's EBITDA Margin Composition to Best Buy



A lot is already factored in



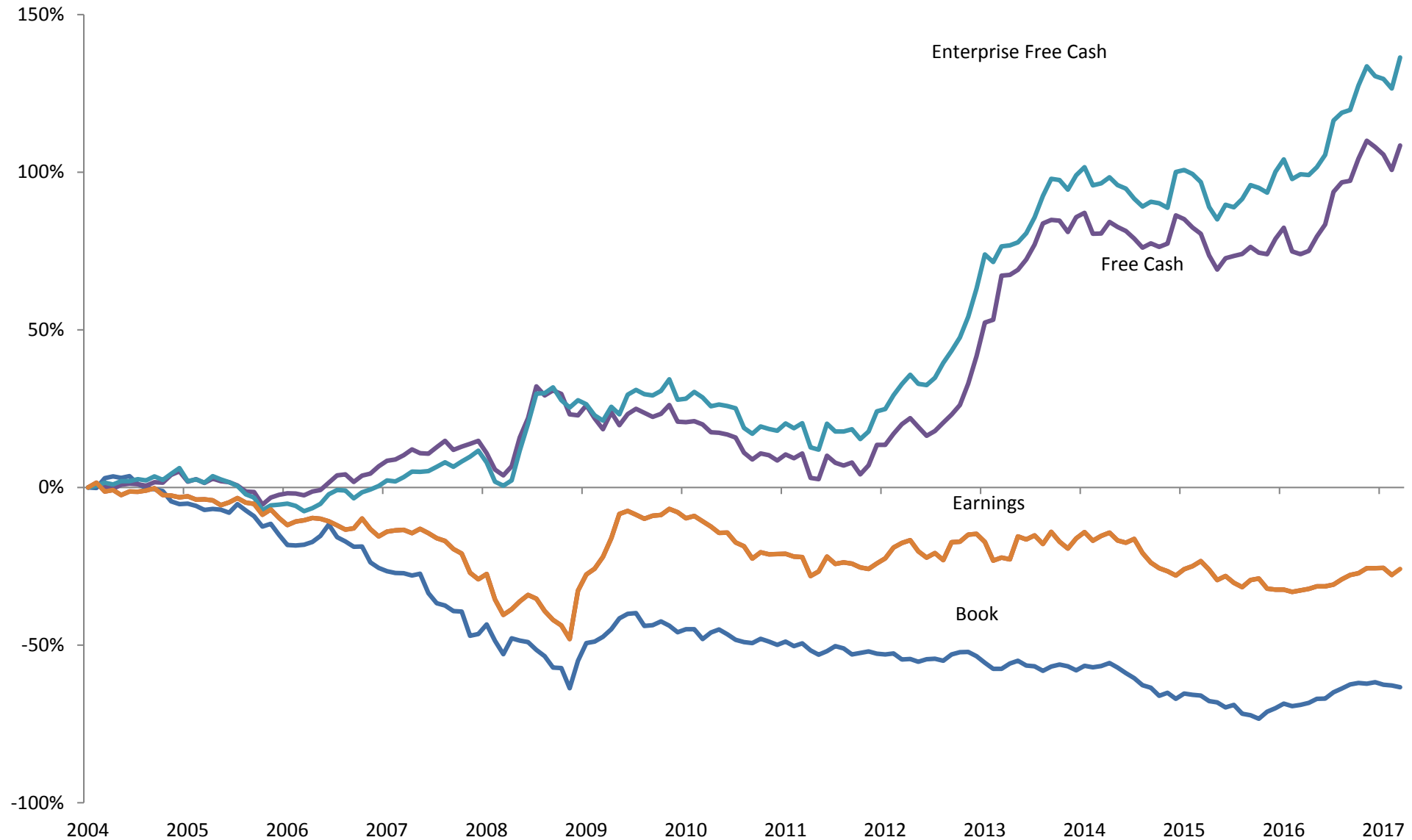
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- ❑ Fund positioning and performance

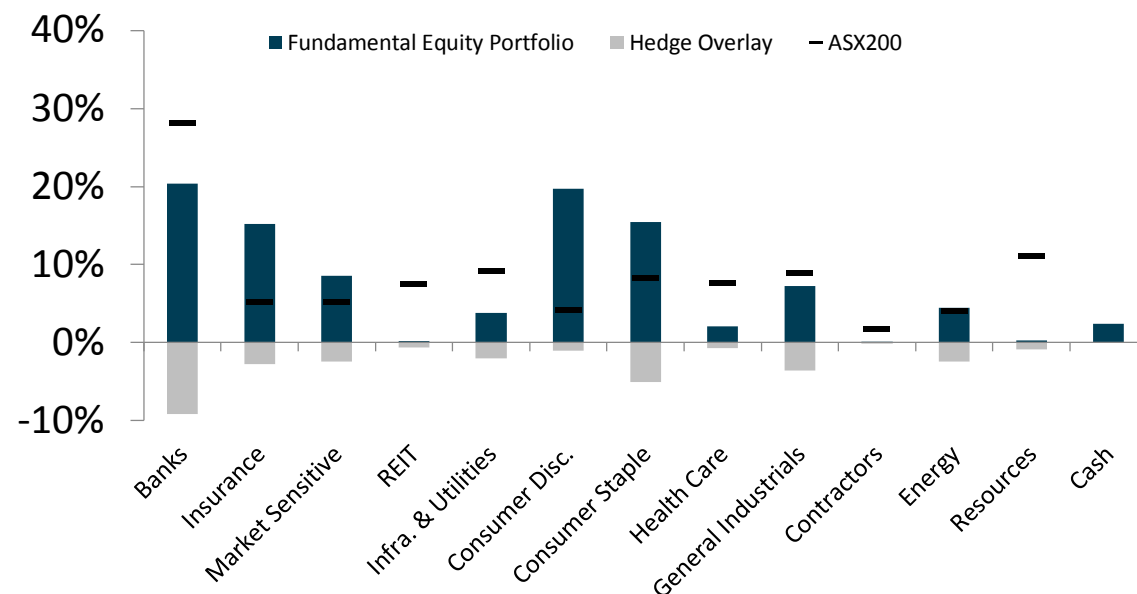
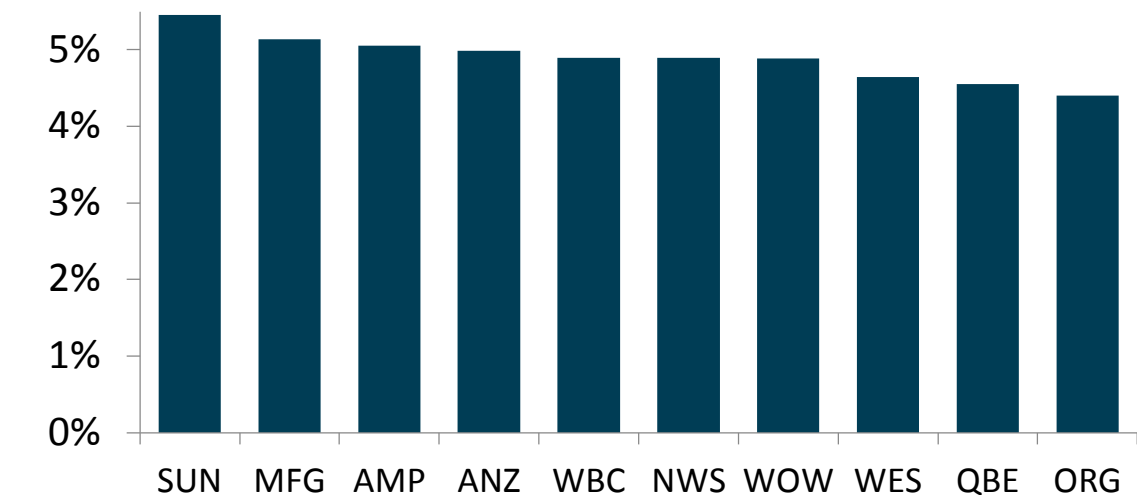
Returns of "Value" portfolios relative to "Glamour portfolios



Outline

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Current Fund Positioning



Fundamental Research

Non-Benchmark

Downside Protection

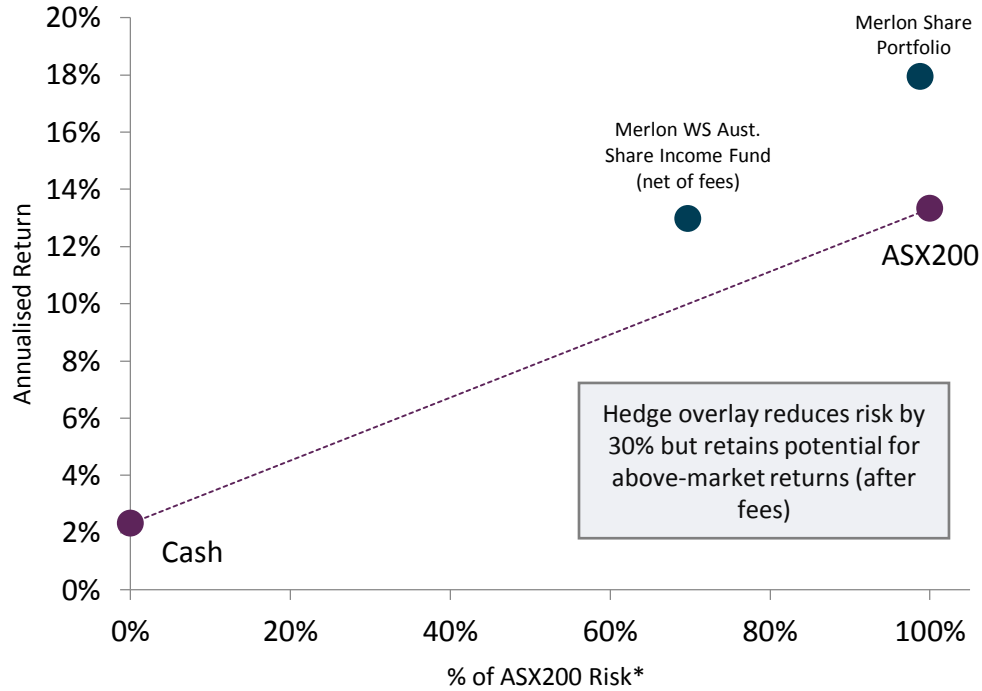
Sustainable Income

Portfolio Analytics	Portfolio	ASX200
Number of Equity Positions	29	200
Net Market Exposure	67%	100%
Active Share	73%	0%
Valuation Upside	+17%	-11%
Trailing Fee Cash Yield	5.6%	4.4%
Gross Distribution Yield	7.2%	5.8%
Price / Earnings Ratio	15.0x	16.8x

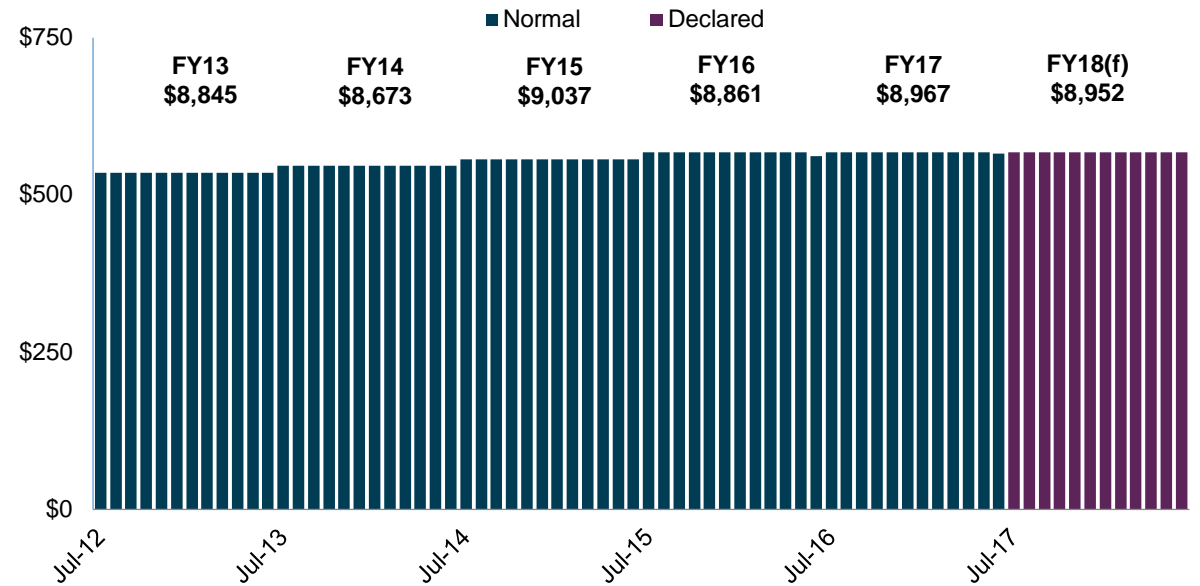
Portfolio as at 30 June 2017, Valuation Upside based on Merlon proprietary valuations.

Outcomes

Total Return vs Risk (5 Years)

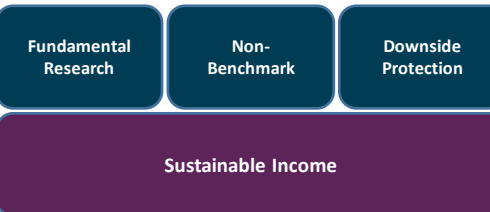


Monthly Income from \$100,000 invested on 1 July 2012



Returns for the Fund and ASX200 grossed up for accrued franking credits and the Fund return is stated after fees as at 30 June 2017.
 Merlon Wholesale Australian Share Income Fund franking 1.9% p.a., ASX200 franking 1.5% p.a.
 * % of ASX200 Risk represents the Fund's statistical beta relative to the ASX200

Fund Performance



	FY2017 (%)	FY2016 (%)	FY2015 (%)	FY2014 (%)	FY2013 (%)	FY2012 (%)	Year (%)	3 Years (% pa)	5 Years (% pa)
Portfolio Return <i>(net of fees)</i>	16.8	5.1	6.8	11.8	25.5	-1.7	16.8	9.4	13.0
ASX200 Return	15.5	2.2	7.2	18.9	24.3	-5.1	15.5	8.1	13.3
Excess Return <i>(net of fees)</i>	1.3	2.9	-0.4	-7.2	1.2	3.4	1.3	1.3	-0.3
Share Portfolio Excess Return <i>(before fees)</i>	8.0	4.8	2.3	-2.7	11.7	1.7	8.0	4.9	4.7
Excess Yield	1.7	1.7	1.5	0.9	3.0	4.1	1.7	1.6	1.7
Average Daily Market Exposure	68%	70%	70%	69%	69%	69%	68%	69%	69%

Preliminary returns for the Fund and ASX200 grossed up for accrued franking credits and the Fund return is stated after fees as at 30 June 2017.



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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.



Adrian Lemme
Analyst/Portfolio Manager

Adrian joined Merlon Capital Partners as a Principal in May 2012 from AMP Capital where he was a Portfolio Manager/Analyst, responsible for investments in retail, food and beverage, transport and chemical sectors. Having commenced his career with Commonwealth Bank in 2003, Adrian was the lead transport analyst with CBA Equities Research prior to joining AMP Capital in 2010.

Thank you