

Merlon Australian Share Income Fund

Webinar – 3 May 2018

Joey Mui and Adrian Lemme

Disclaimer



The information contained in this presentation is current as at May 2018 unless otherwise specified and is provided by Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante Partners). It is intended solely for holders of an Australian Financial Services License or other wholesale clients (as defined in the Corporations Act 2001 (Cth)). It must not be passed on to retail clients. Any information provided or conclusions made, whether express or implied, do not take into account of any person's objectives, financial situation or needs. Because of that, each person should, before acting on any this information, consider its appropriateness, having regard to their objectives, financial situation and needs. **Past performance is not a reliable indicator of future performance.**

Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante Partners) is the responsible entity of the Merlon Australian Share Income Fund ARSN 090 578 171 (Fund) and issues the interests in the Fund. Offers of interests in the Fund are contained in the current relevant product disclosure statement (PDS) provided by Fidante Partners which is available on the Fidante Partners' website www.fidante.com.au. The PDS should be considered before making any decision whether to acquire or continue to hold units in the Fund.

In preparing this presentation, Fidante Partners has relied on publicly available information and sources believed to be reliable, however, the information has not been independently verified by Fidante Partners. While due care and attention has been exercised in the preparation of the presentation, Fidante Partners gives no representation, warranty (express or implied) as to the accuracy, completeness or reliability of the information. The information in this presentation is also not intended to be a complete statement or summary of the industry, markets, securities or developments referred to in the presentation. Fidante Partners is not licensed or authorised to provide tax advice. We strongly recommend that an investor seek professional taxation and social security advice for their individual circumstances. Any examples used are for illustration purposes only. Any opinions expressed in this presentation, including as to future matters, may be subject to change. Opinions as to future matters are predictive in nature and may be affected by inaccurate assumptions or by known or unknown risks and uncertainties and may differ materially from results ultimately achieved.

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

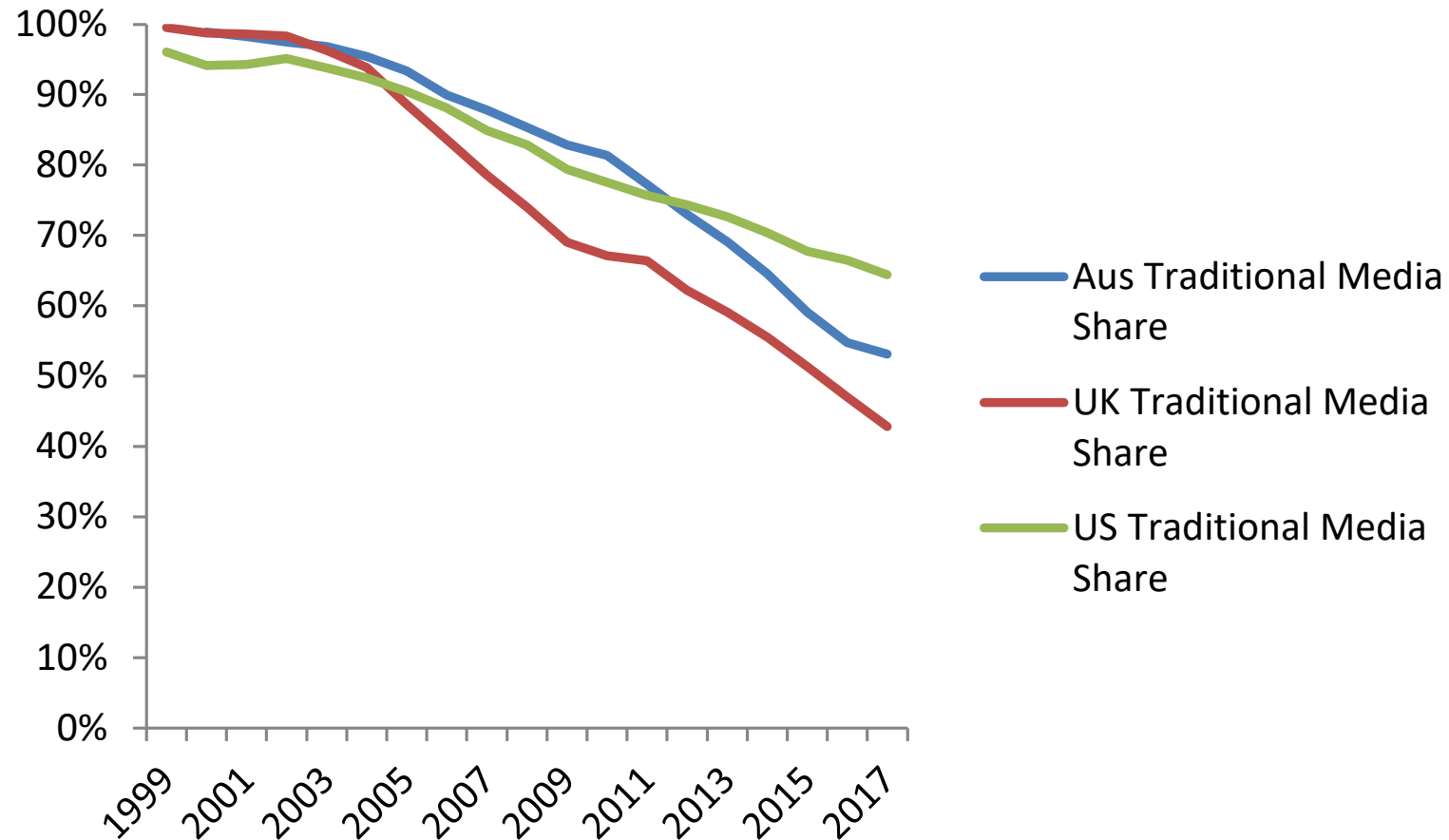
Outline

- ❑ Digital vs Traditional media - a global trend

- ❑ Some thoughts on asset prices

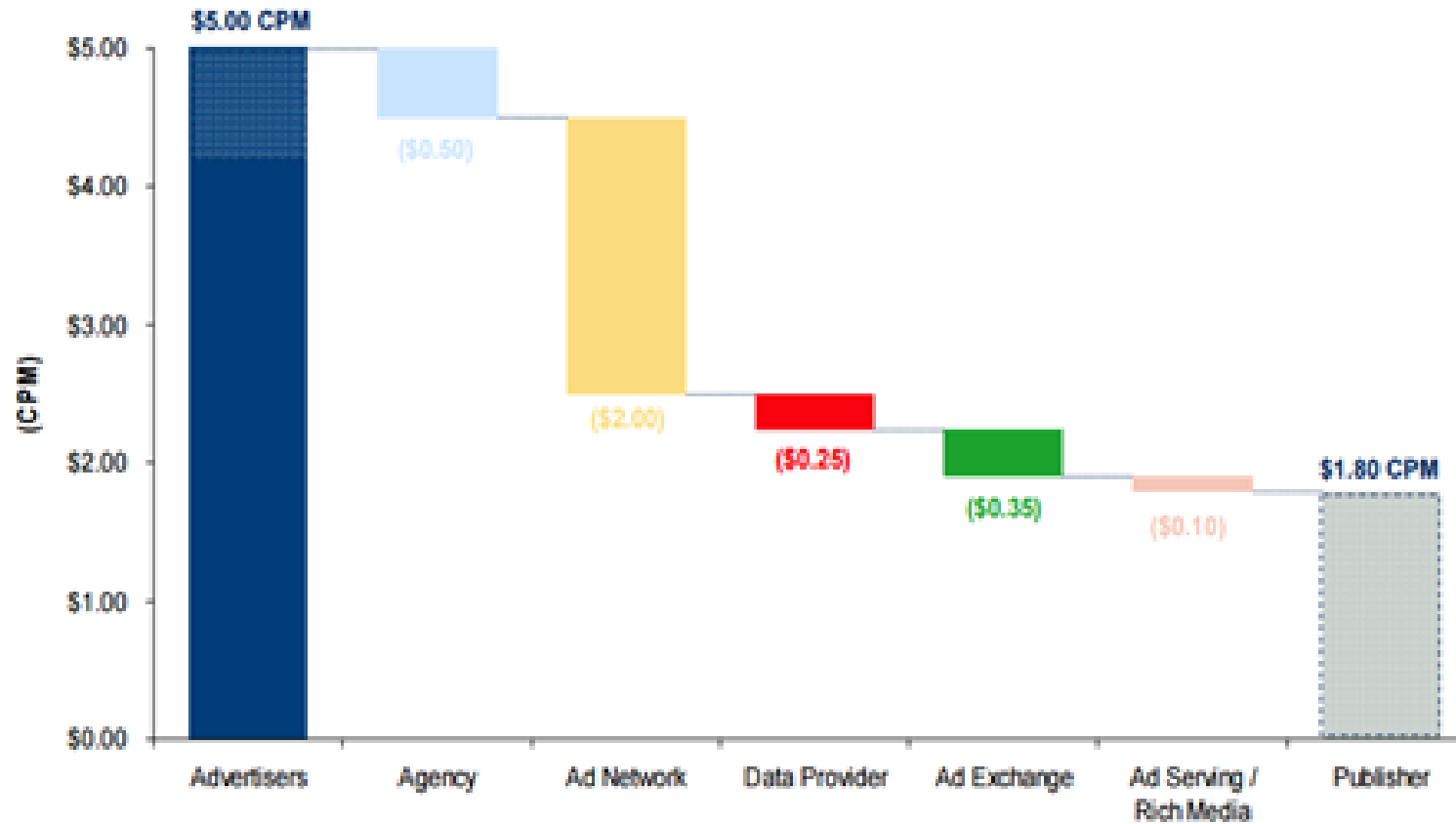
- ❑ Fund positioning and performance

Traditional media declining in all markets



Source: Group M, Merlon Estimates

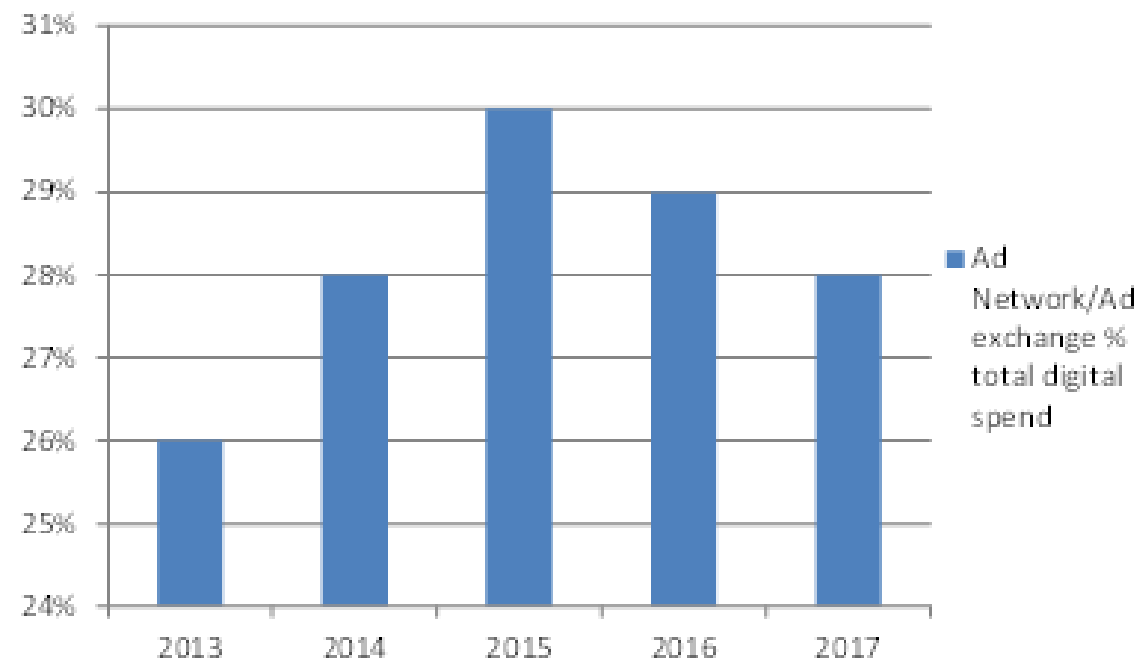
The rise of digital and ad network trading incentives



Source: Terence Kawaja Presentation, 2010

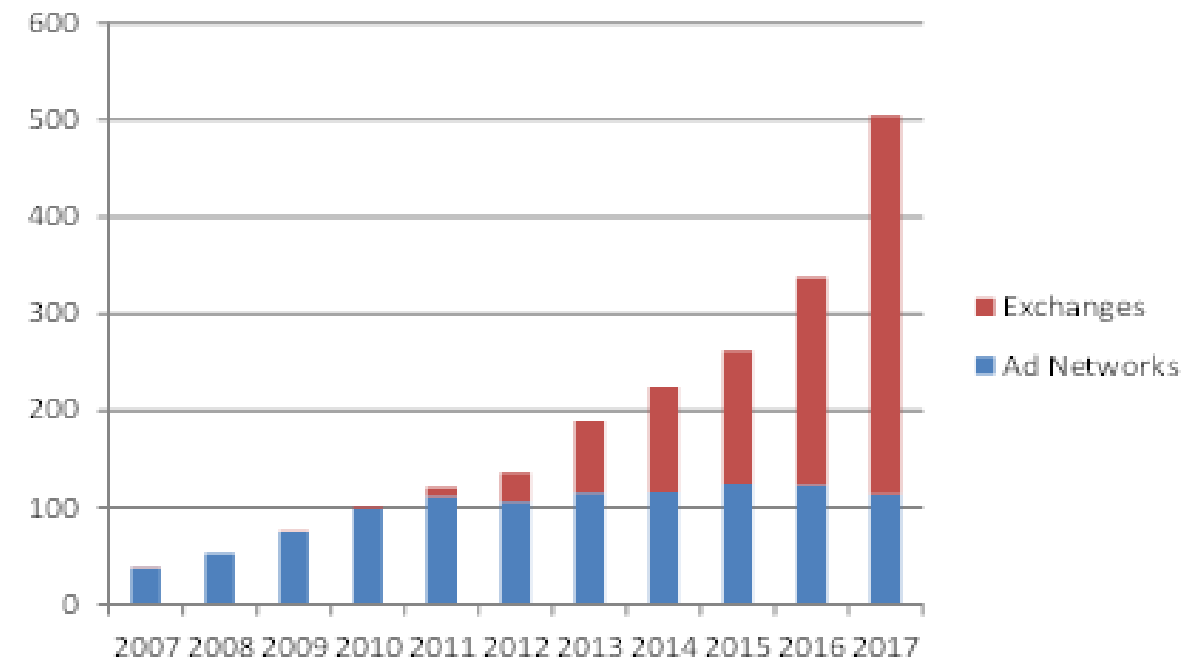
Australia behind the curve on trading desk scrutiny

US Ad network/trading desk revenues



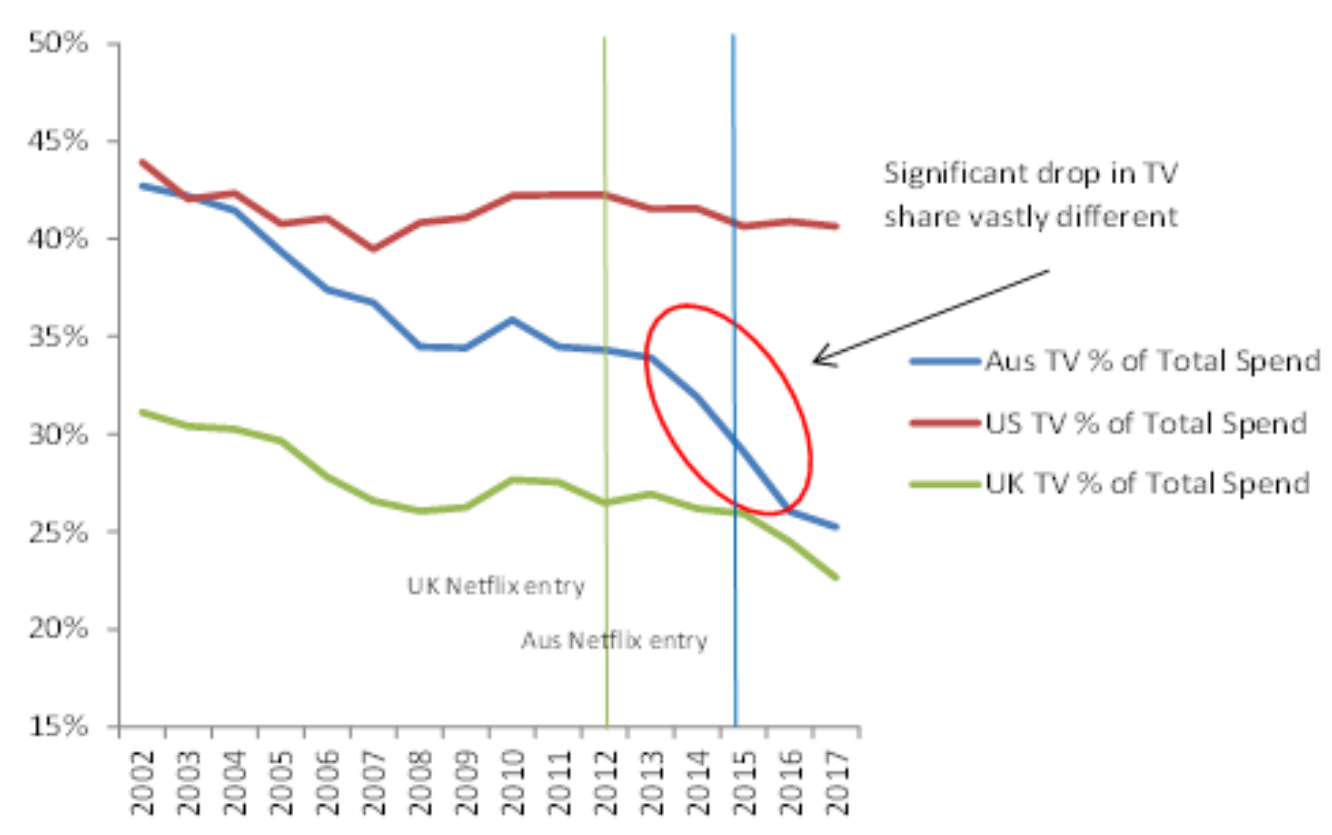
Source: SMI, Merlon Analysis

Australia Ad network/trading desk revenues



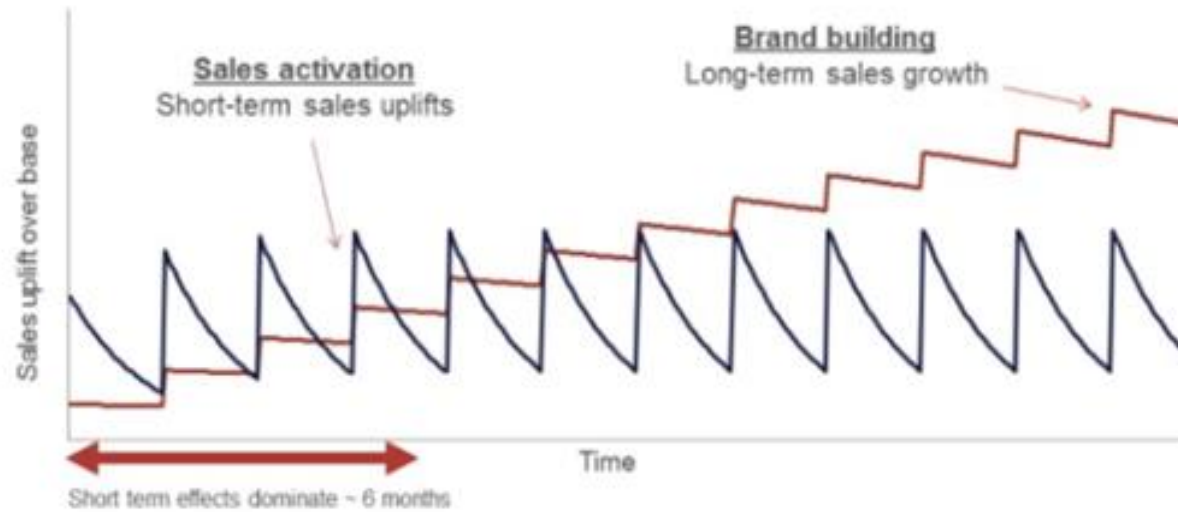
Source: SMI, Merlon Analysis

Australian TV Declines Over-extended

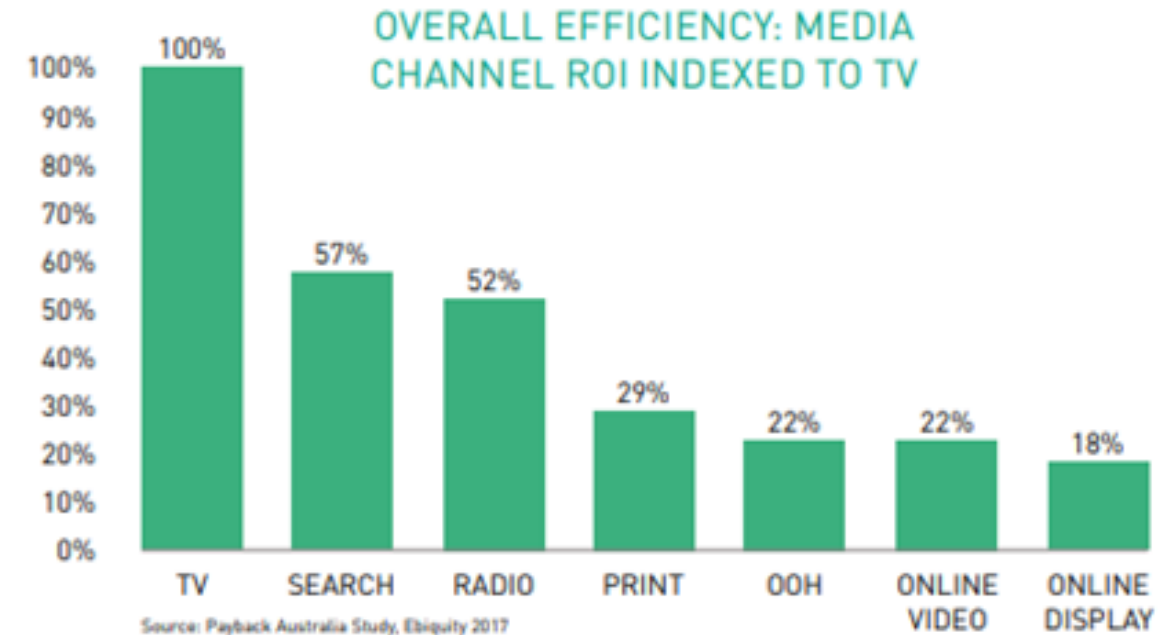


Source: Group M, Merlon Estimates

A pull back from short termism

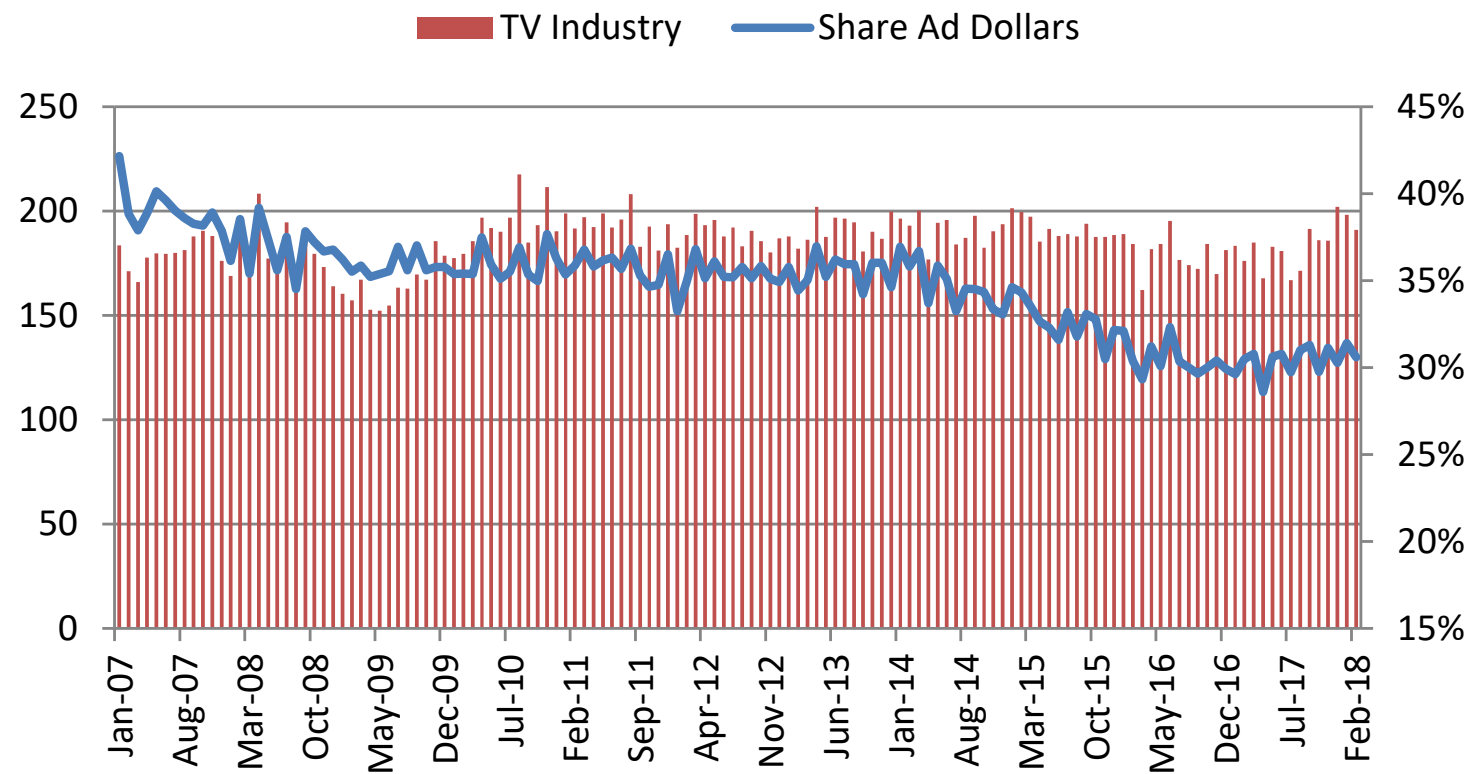


Source: Effectiveness in the digital era. 2016, Binet & Field IPA



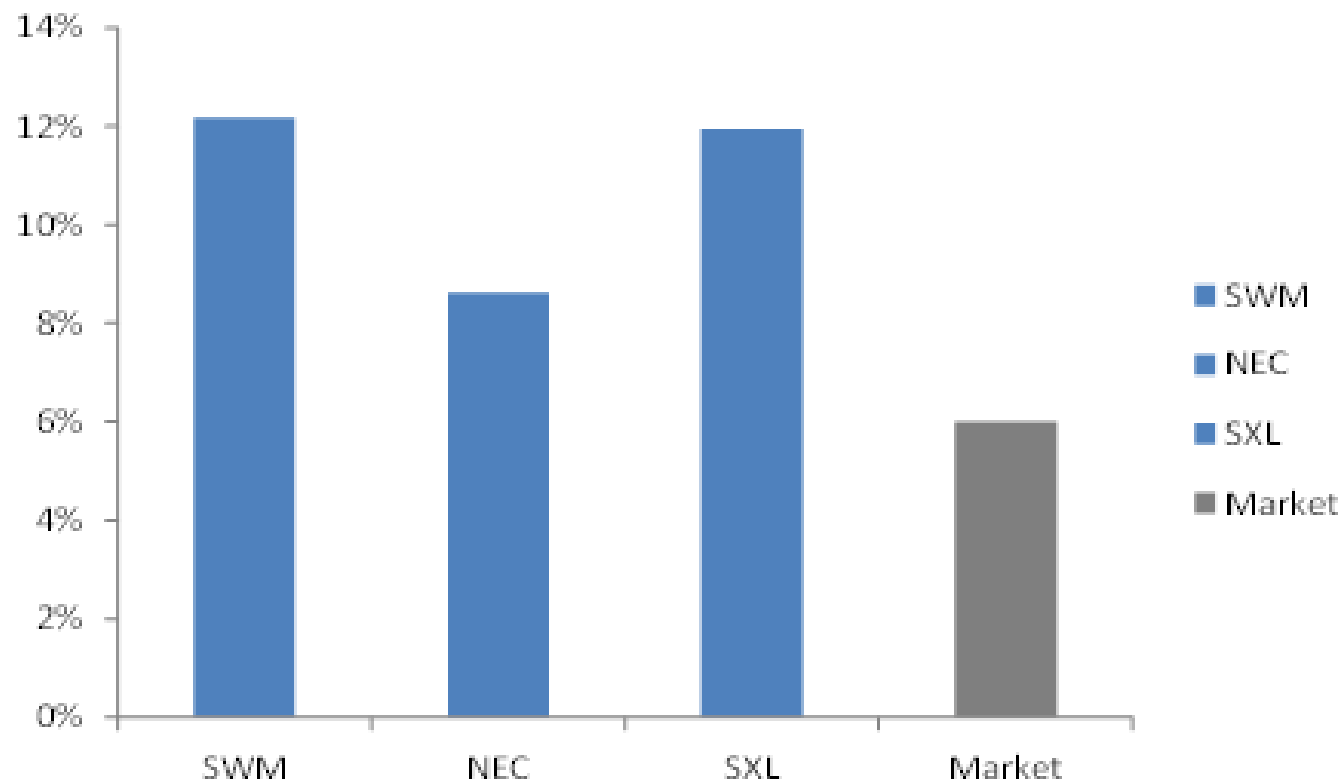
Source: Ebiquity

Signs of improvement



Source: SMI, Merlon Analysis

Listed Company Valuations Reflect Very Low Expectations



Source: Bloomberg, Merlon Analysis, Undiscounted sustainable free cash flow and franking estimate divided by current market value plus projected net debt

Comments

- TV has been an easy sector to avoid over the past 2 years
- Excess free cash flow yield spread to market is very wide
- Ratings remain difficult to predict
- Sports rights bidding needs to be rational going forward
- Prudent to own a spread of TV exposed stocks

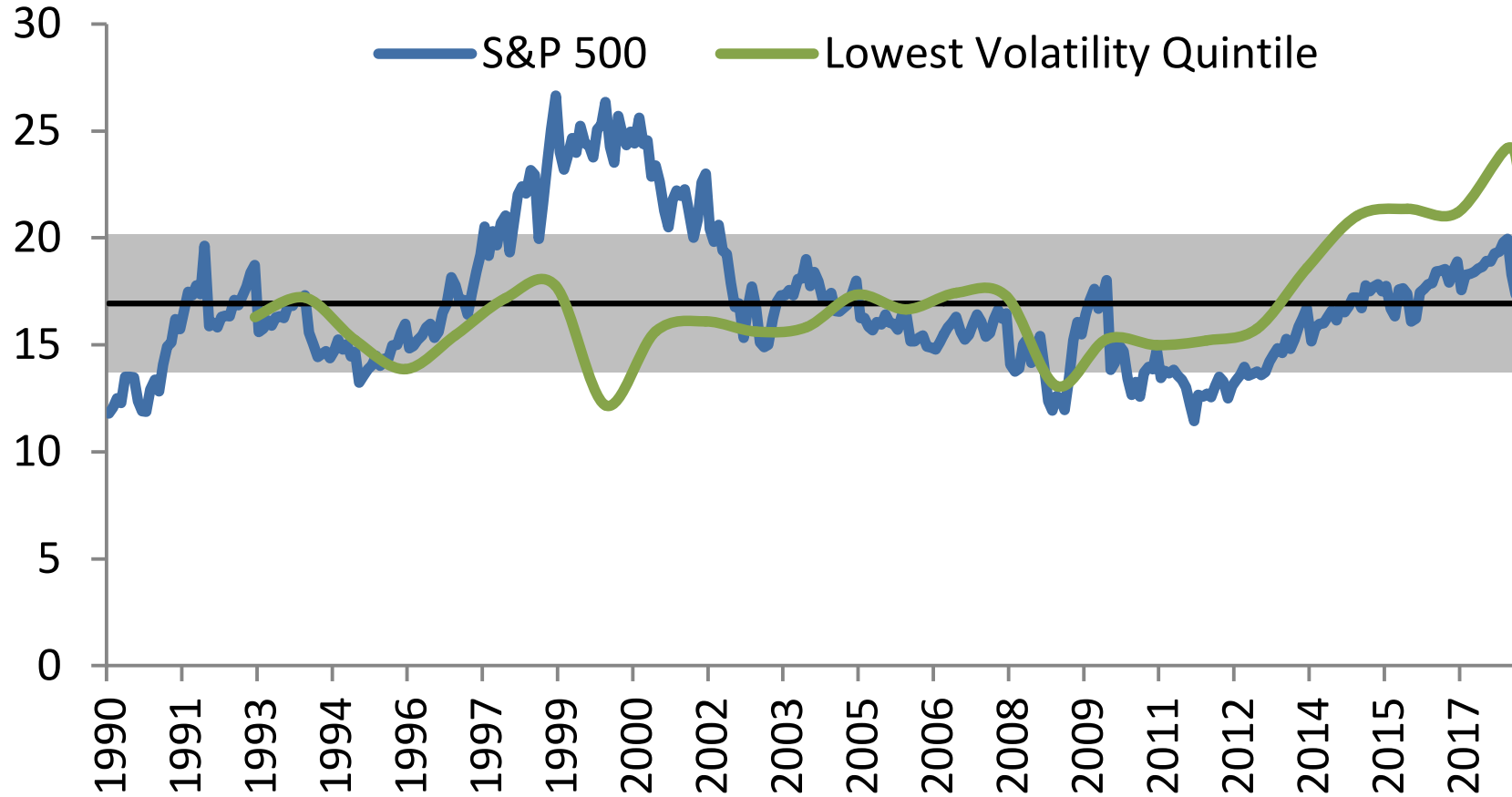
Outline

- ❑ Digital vs Traditional media – a global trend

- ❑ Some thoughts on asset prices

- ❑ Fund positioning and performance

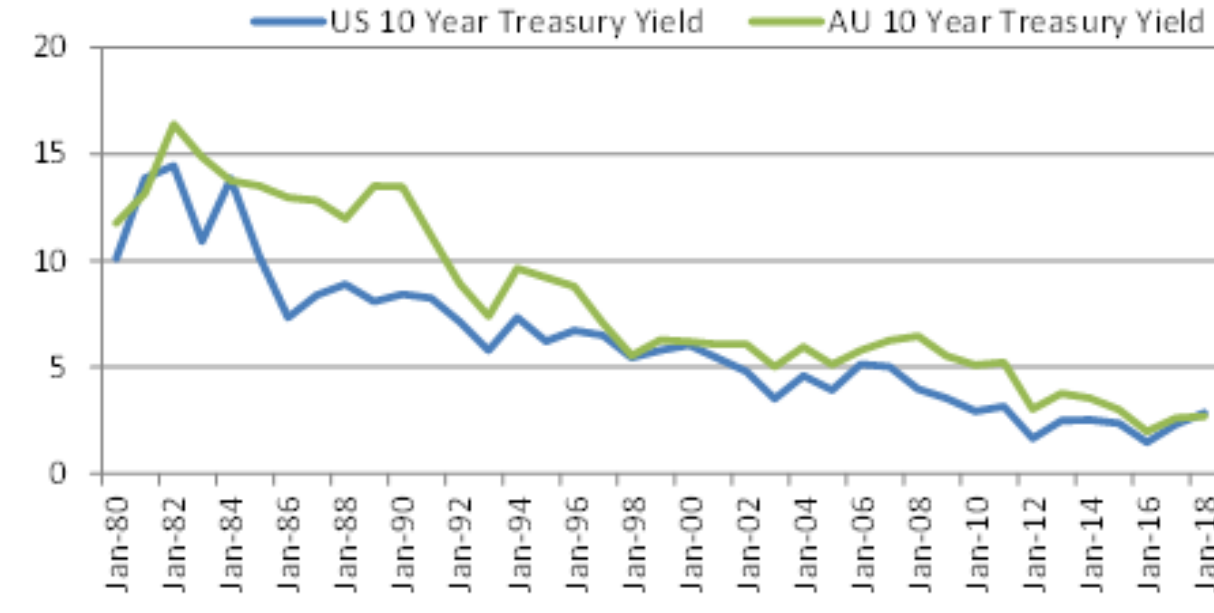
S&P 500 Price / Earnings Ratio



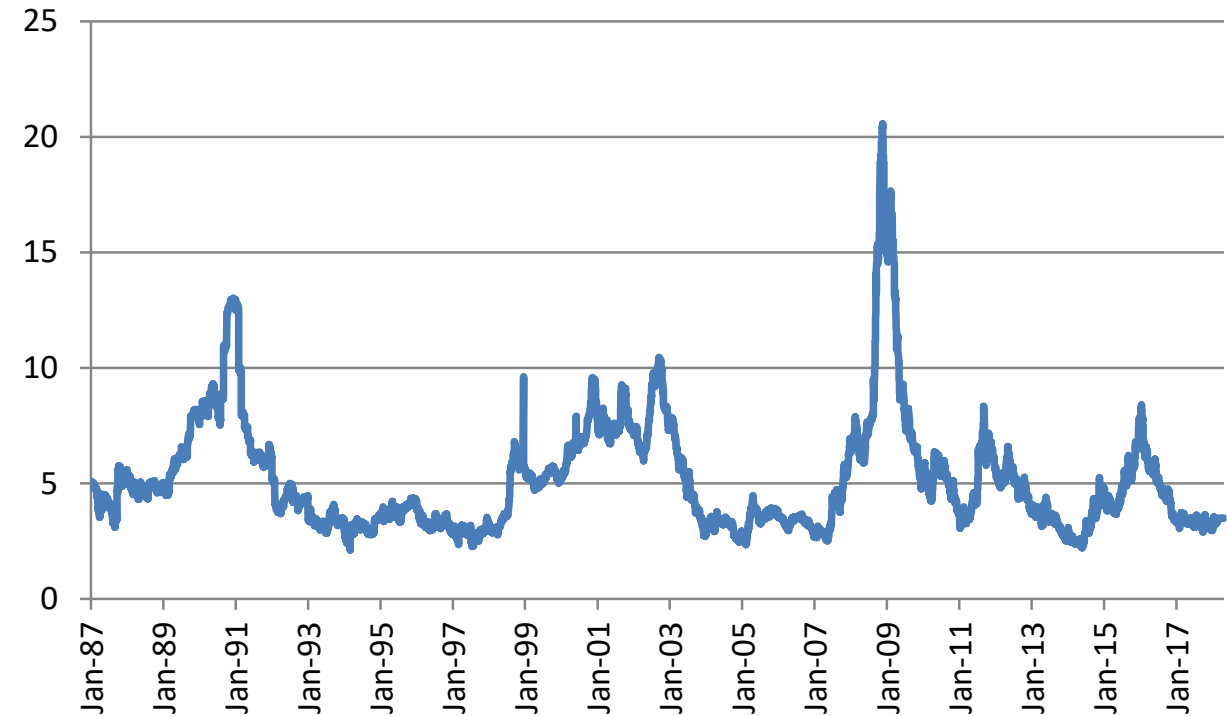
Source: Bloomberg, Merlon Analysis

Fixed Income

Bond Yields



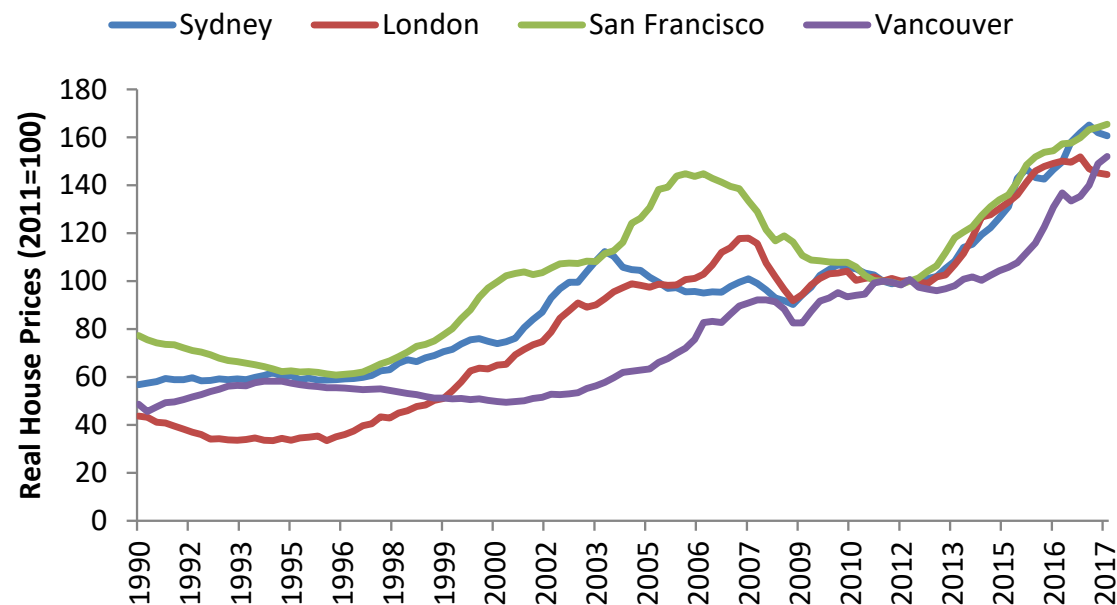
US High Yield Credit Spread – 10 Year



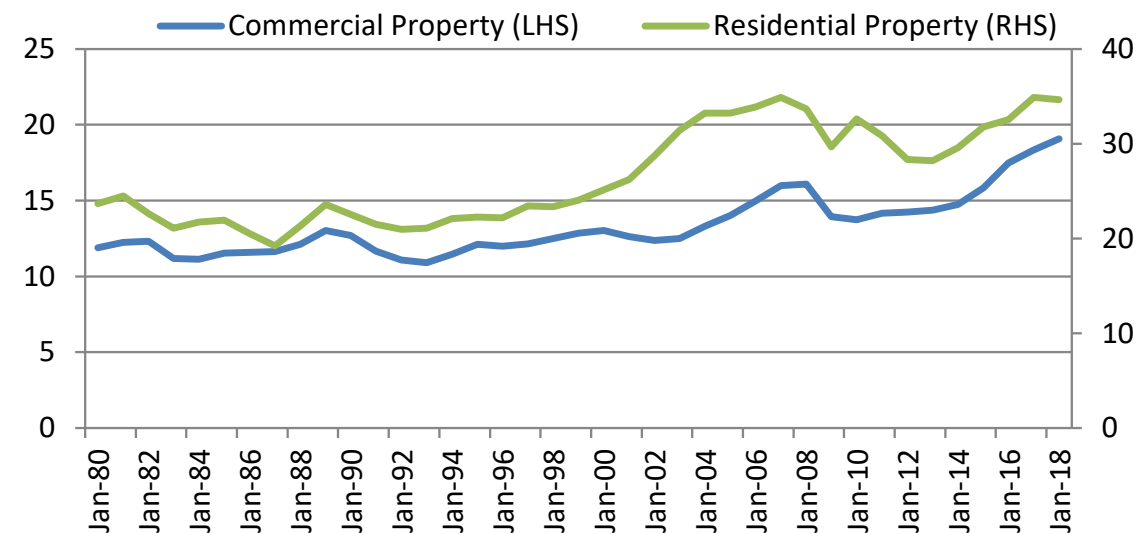
Source: Bloomberg, Merlon Analysis

Residential Property

Real Dwelling Prices

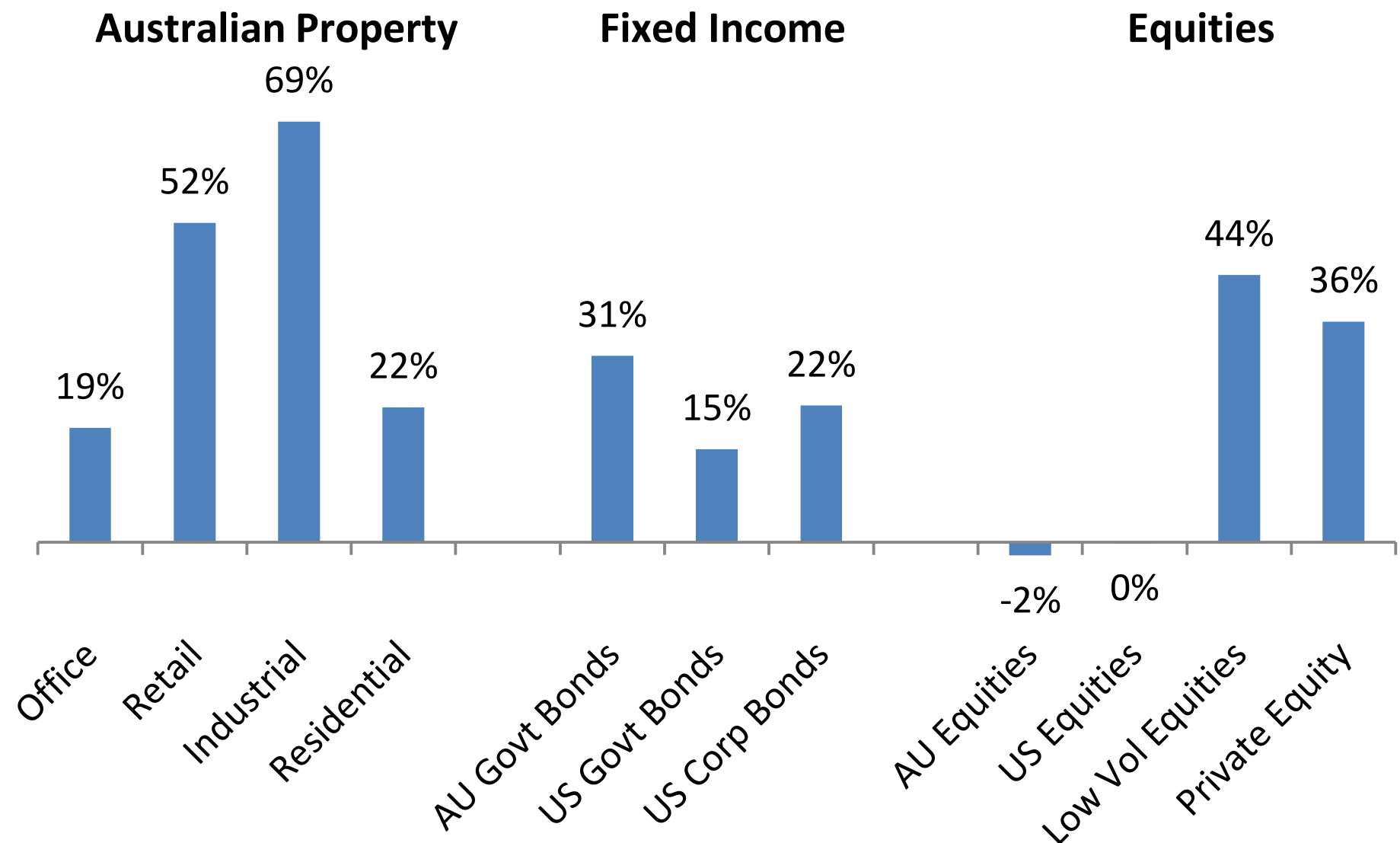


Price-to-Rent Ratios - Australia



Source: Bloomberg, Merlon Analysis

Current Valuation Multiples Relative to Post 1990 Averages

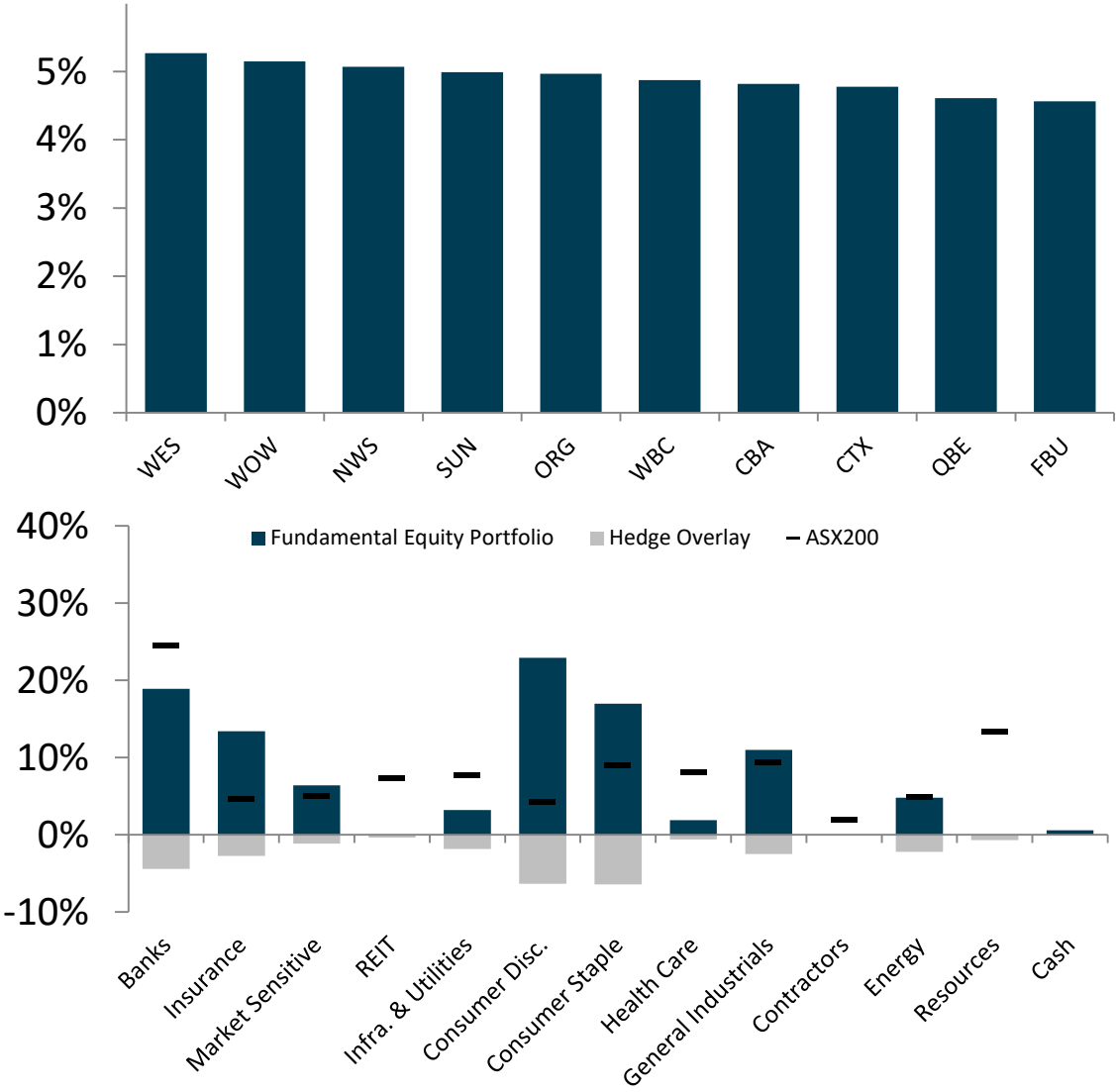


Source: Bloomberg, Merlon Analysis

Outline

- ❑ Digital vs Traditional media – a global trend
- ❑ Some thoughts on asset prices
- ❑ Fund positioning and performance

Current Fund Positioning



Portfolio as at 30 April 2018, Valuation Upside based on Merlon proprietary valuations.

Fundamental Research

Non-Benchmark

Downside Protection

Sustainable Income

| Portfolio Analytics | Portfolio | ASX200 |
|----------------------------|-----------|--------|
| Number of Equity Positions | 32 | 200 |
| Net Market Exposure | 70% | 100% |
| Active Share | 76% | 0% |
| Valuation Upside | +20% | -16% |
| Trailing Free Cash Yield | 5.2% | 5.2% |
| Gross Distribution Yield | 7.4% | 5.7% |
| Price / Earnings Ratio | 14.9x | 17.4x |

Outcomes

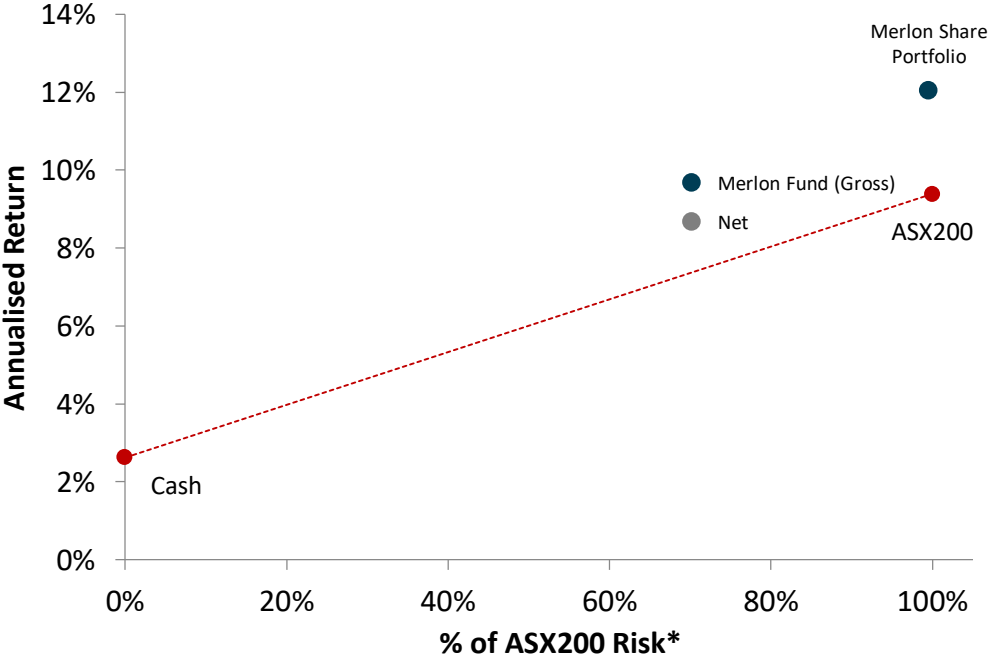
Fundamental Research

Non-Benchmark

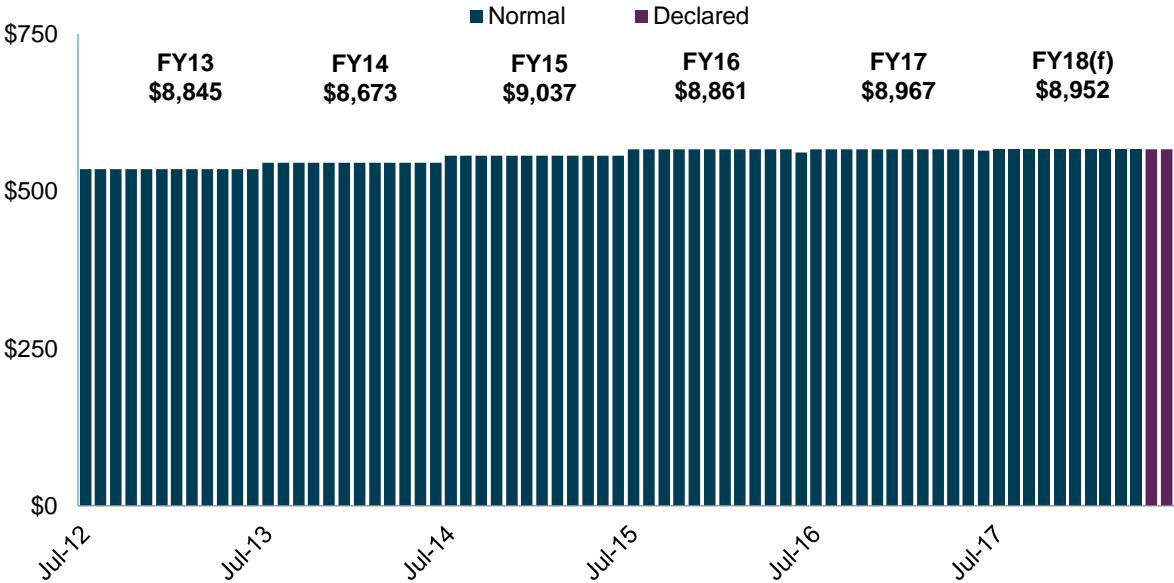
Downside Protection

Sustainable Income

Total Return vs Risk (5 Years)

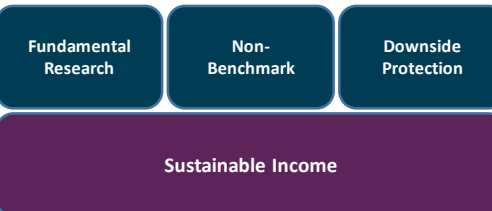


Monthly Income from \$100,000 invested on 1 July 2012



Preliminary returns for the Fund and ASX200 grossed up for accrued franking credits and the Fund return is stated after fees as at 30 April 2018.
Merlon Australian Share Income Fund franking 1.8% p.a., ASX200 franking 1.5% p.a.
* % of ASX200 Risk represents the Fund's statistical beta relative to the ASX200

Fund Performance



| | FYTD18 (%) | FY2017 (%) | FY2016 (%) | FY2015 (%) | FY2014 (%) | FY2013 (%) | FY2012 (%) | 3 Years (% pa) | 5 Years (% pa) | 7 Years (% pa) |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------------|-------------------|-------------------|
| ASX200 Return | 9.4 | 15.5 | 2.2 | 7.2 | 18.9 | 24.3 | -5.1 | 7.2 | 9.0 | 9.4 |
| Share Portfolio Excess Return | -3.6 | 8.0 | 4.8 | 2.3 | -2.7 | 11.7 | 1.7 | 2.2 | 1.5 | 2.7 |
| Hedge Overlay | -2.0 | -5.6 | -0.9 | -1.7 | -3.5 | -9.3 | 2.6 | -1.8 | -2.1 | -2.4 |
| Portfolio Return (before fees) | 3.9 | 17.9 | 6.1 | 7.8 | 12.8 | 26.7 | -0.8 | 7.5 | 8.4 | 9.7 |
| Portfolio Return (net of fees) | 3.1 | 16.8 | 5.1 | 6.8 | 11.8 | 25.5 | -1.7 | 6.5 | 7.4 | 8.7 |
| Excess Yield | 1.0 | 1.7 | 1.7 | 1.5 | 0.9 | 3.0 | 4.1 | 0.9 | 1.3 | 1.4 |
| Average Daily Market Exposure | 68% | 68% | 70% | 70% | 69% | 69% | 69% | 69% | 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 April 2018.

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

A bit more about your presenters...



Joey Mui
Analyst/Portfolio Manager

Joey Mui joined Merlon Capital Partners as an 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.



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