

Merlon Australian Share Income Fund

Webinar – 26 July 2018

Neil Margolis and Adrian Lemme

Disclaimer



The information contained in this presentation is current as at June 30 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

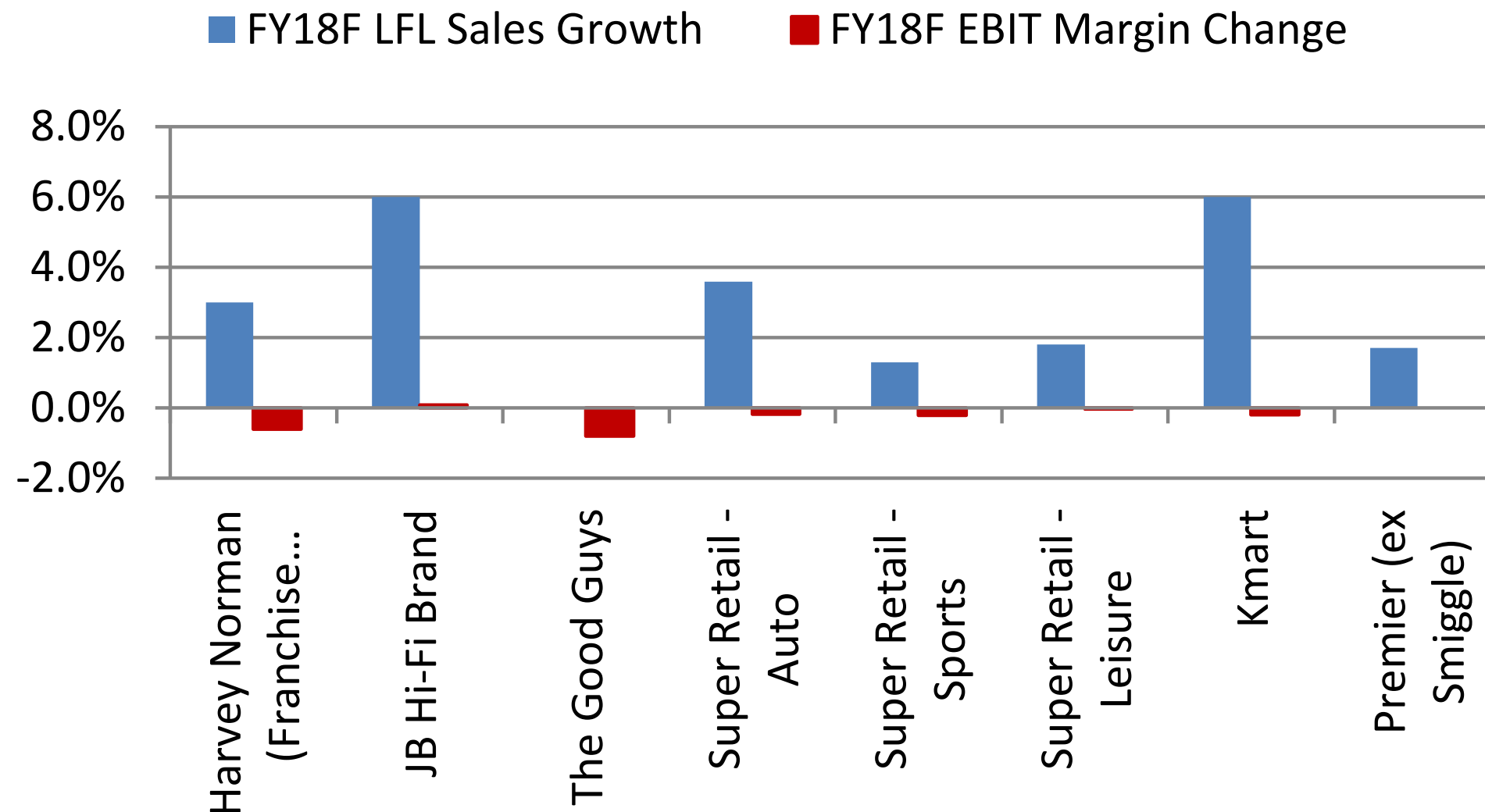
- ❑ Amazon revisited - muted impact so far
- ❑ Rethinking post retirement asset allocation
- ❑ Fund positioning and performance

Online retail growth has accelerated



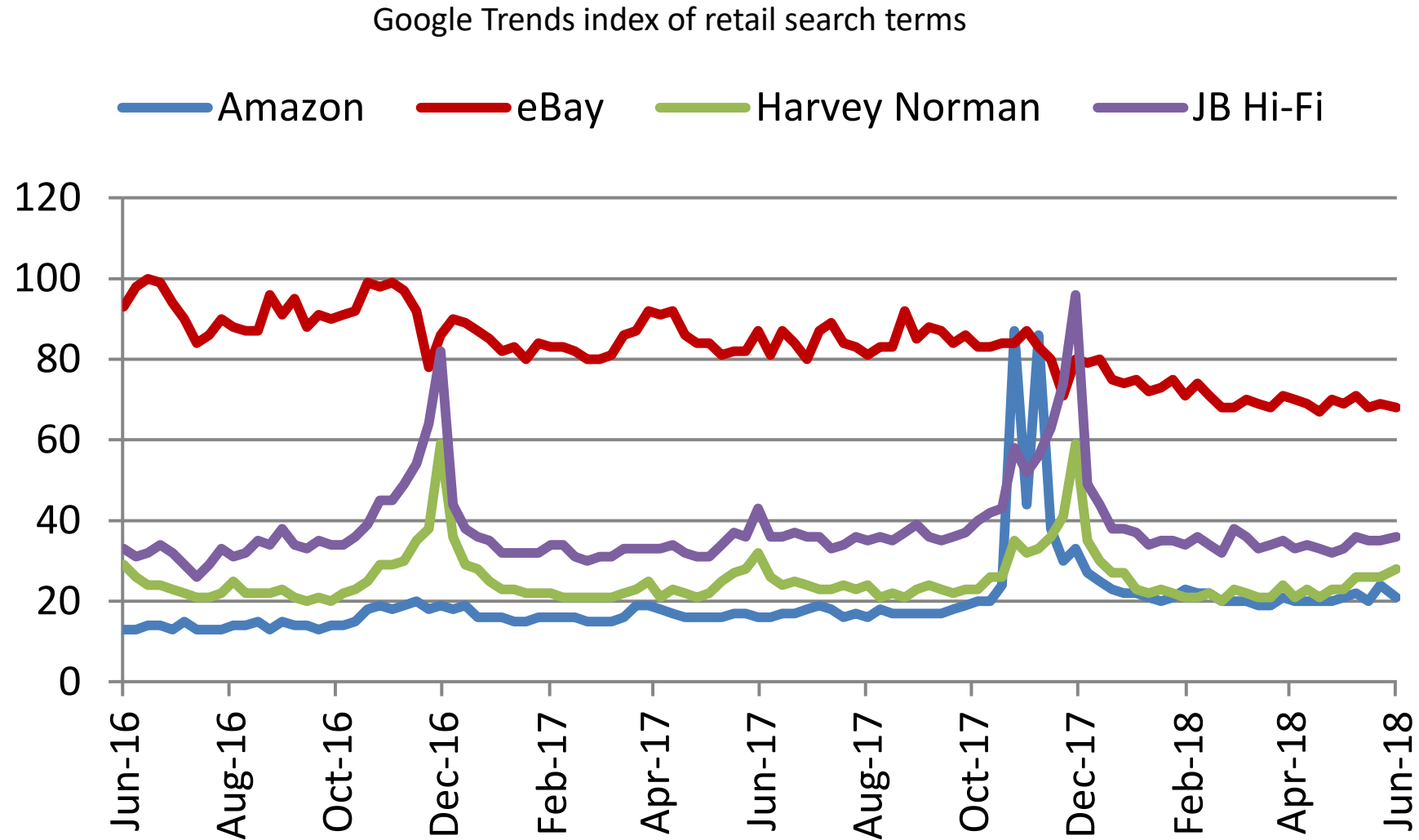
Source: ABS, NAB, Merlon Estimates

No discernible impact yet on Australian retailers sales



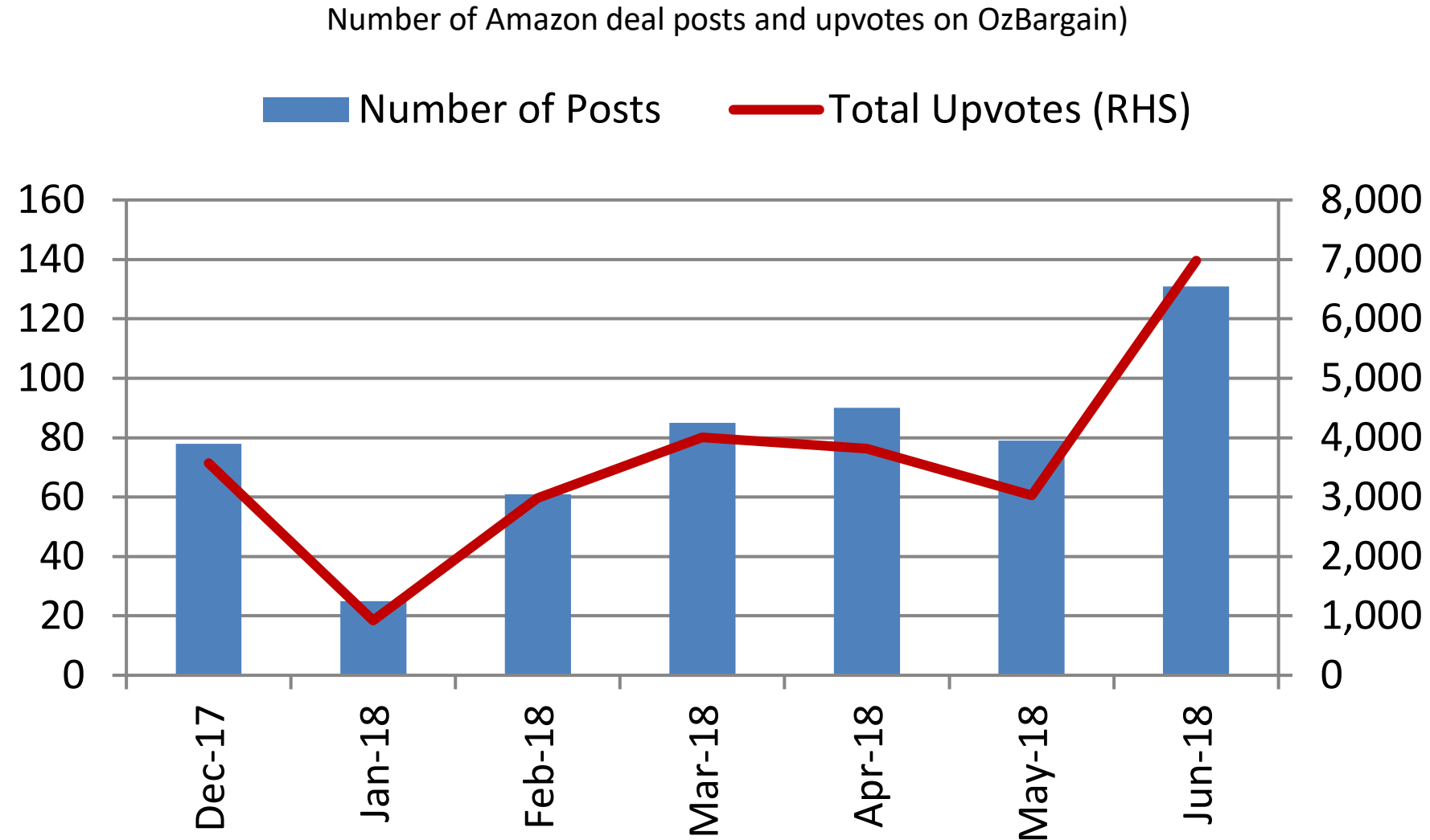
Source: Company Reports, Merlon Estimates

Launch failed to live up to the hype....



Source: Google Trends, Merlon Estimates

....but Amazon is becoming more aggressive

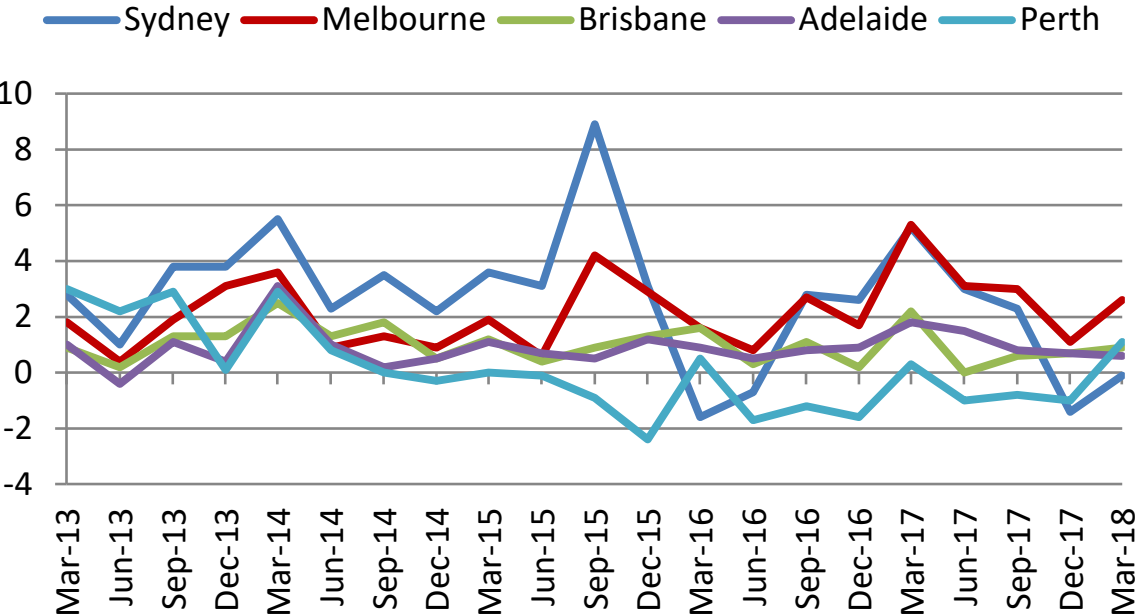


Source: OzBargain, Merlon Estimates

Housing market remains a greater cause for concern

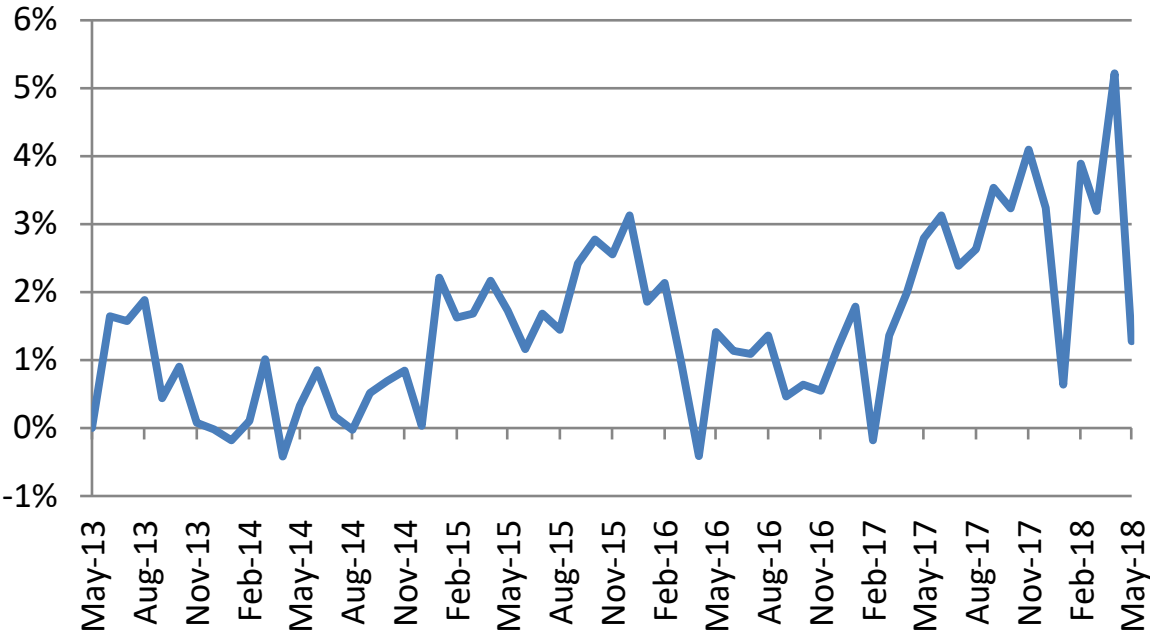


House price indexes (quarterly sequential growth)



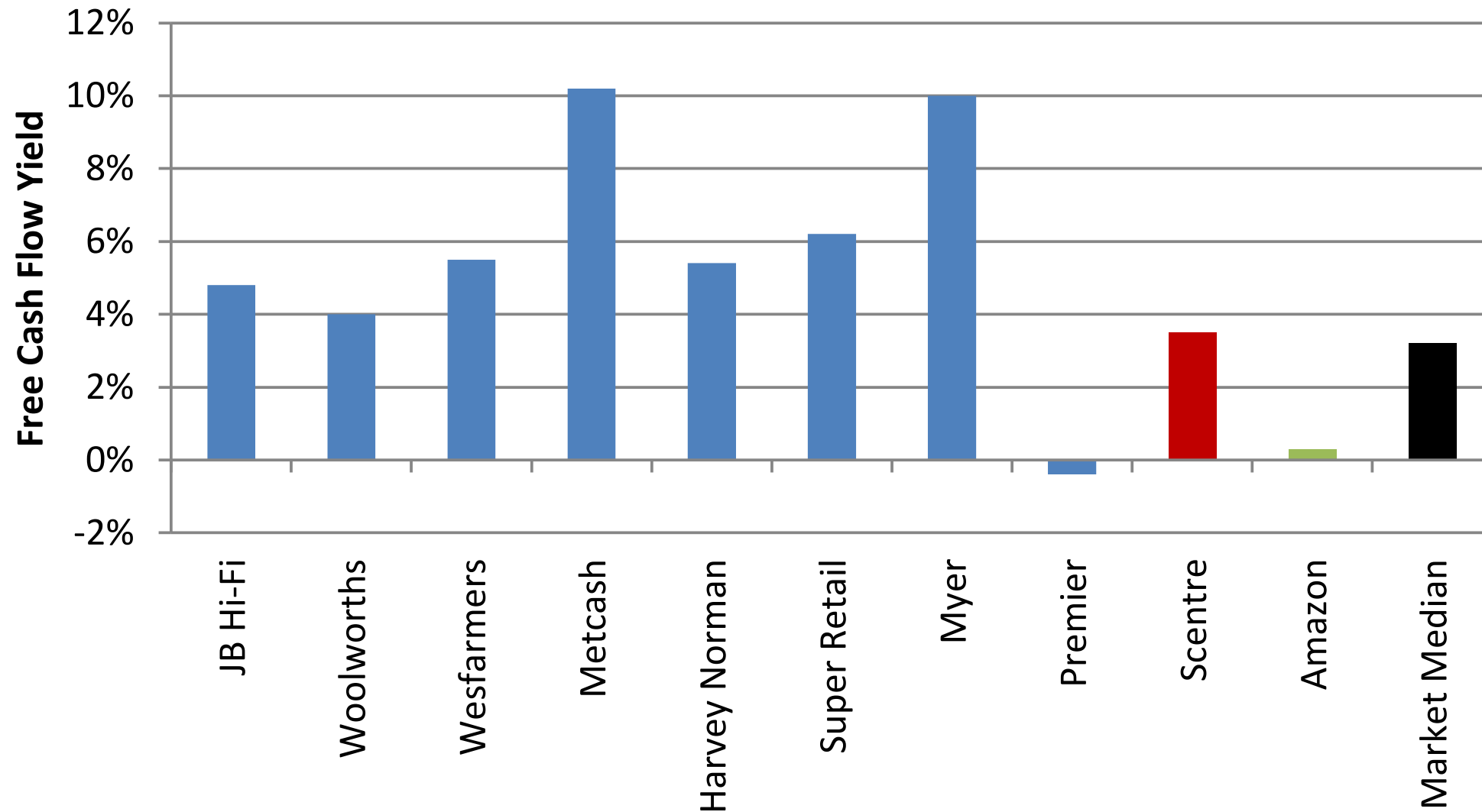
Source: ABS, Merlon Estimates

Monthly hours worked (growth on pcp)



Source: ABS, Merlon Estimates

Retail sector still looks like good value



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

Outline

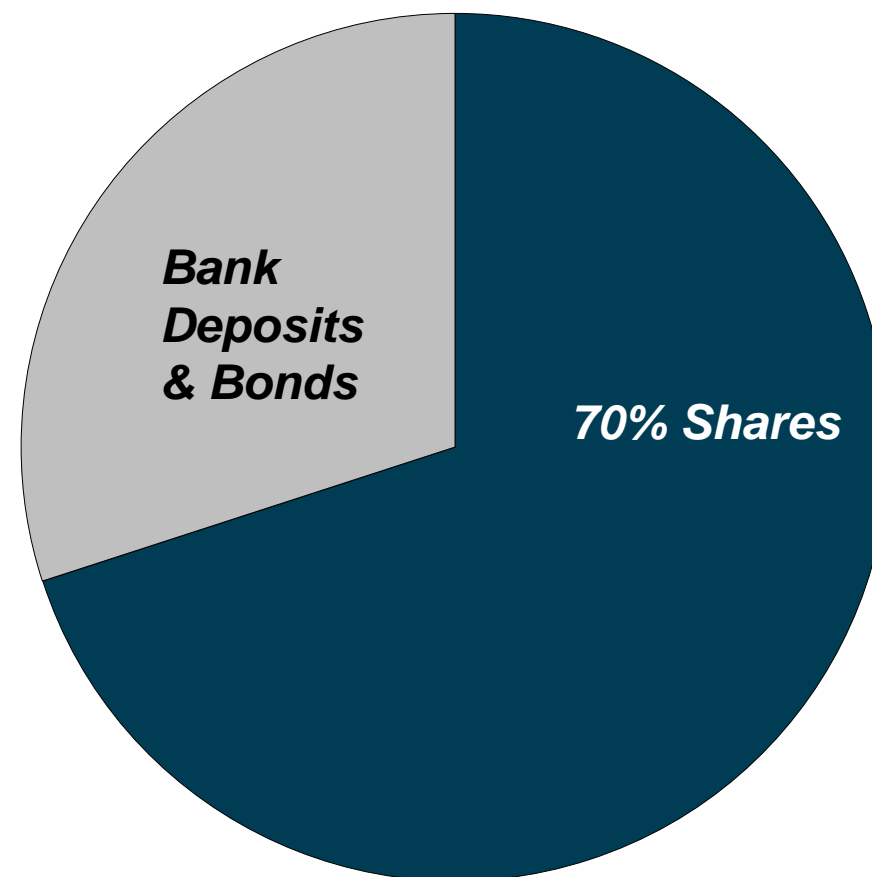
- ❑ Amazon revisited – muted impact so far

- ❑ Rethinking post retirement asset allocation

- ❑ Fund positioning and performance

Accumulators – Illustrative Asset Allocation

- ❑ Return = 8% pa
- ❑ Biggest drawdown = 45% (Oct-07 to Feb-09)
- ❑ Income = Not important
- ❑ Liquidity = Less important



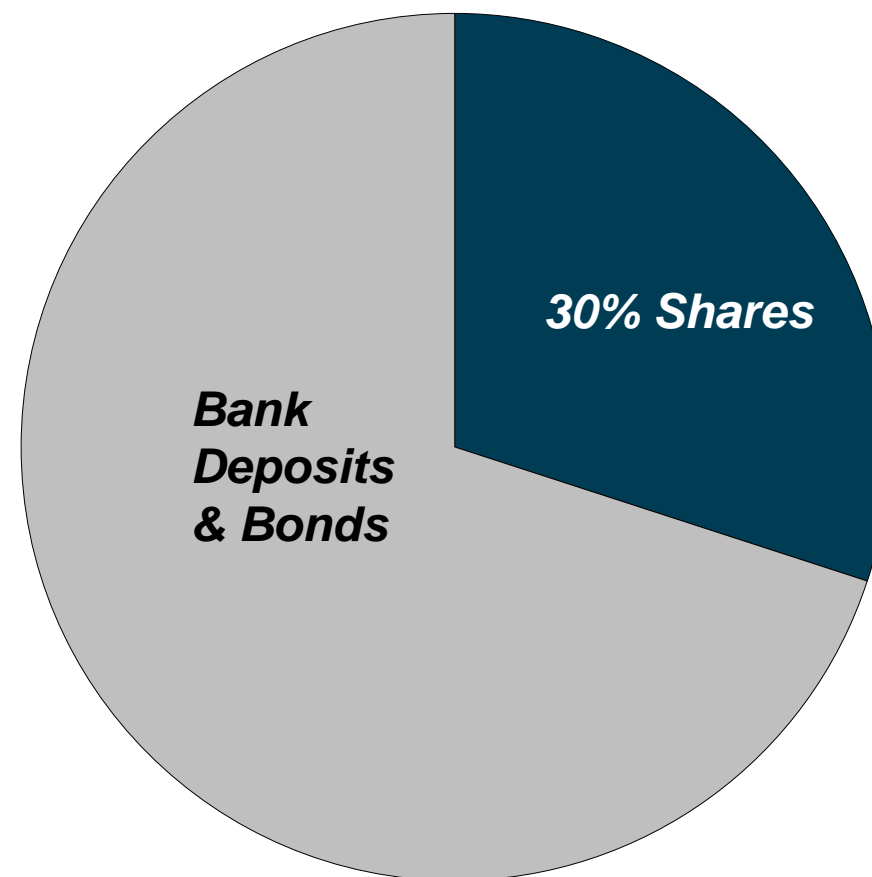
Return & drawdown based on implementing strategy over 20 years to March 2018 and includes estimated franking credits.

Return on shares reflects equally weighted portfolios of ASX100 constituents up until April 2004 and equally weighted ASX200 constituents thereafter.

Return on bank deposits & bonds reflects 30 day bank bill returns.

Post Retirement – Illustrative Asset Allocation

- ❑ Return = 6% pa
- ❑ Biggest drawdown = 18% (Oct-07 to Feb-09)
- ❑ Income = 7% pa growing at CPI
- ❑ Liquidity = More important
- ❑ Residual capital = 5% of initial investment



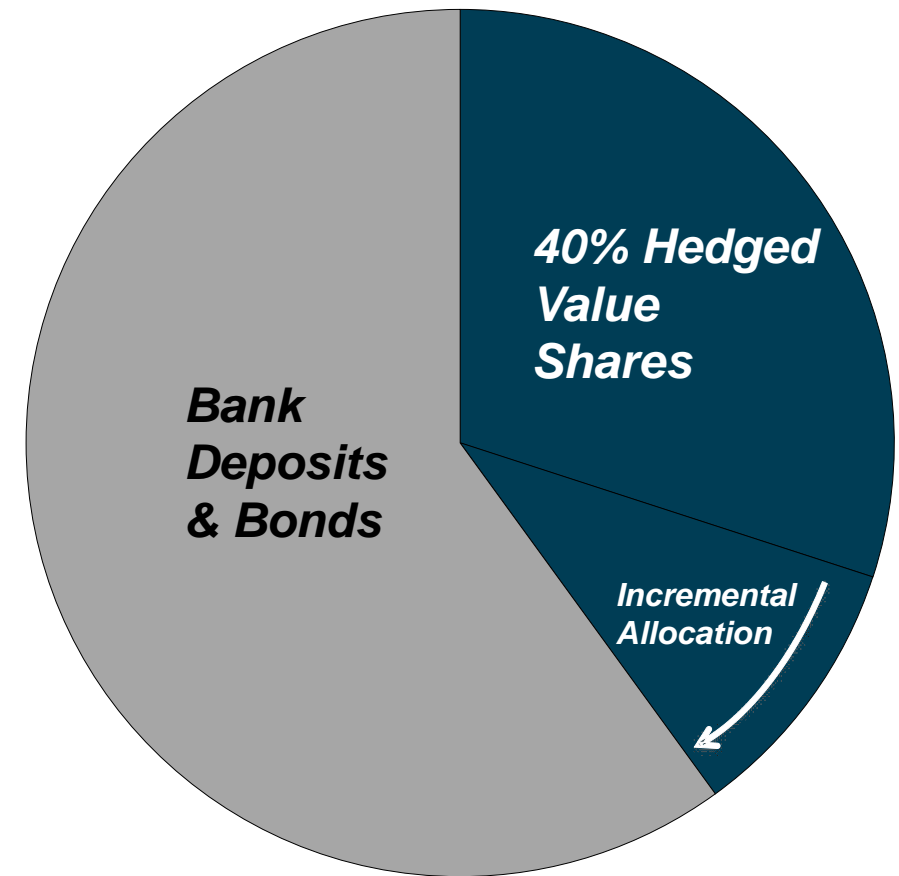
Return & drawdown based on implementing strategy over 20 years to March 2018 and includes estimated franking credits.

Return on shares reflects equally weighted portfolios of ASX100 constituents up until April 2004 and equally weighted ASX200 constituents thereafter

Return on bank deposits & bonds reflects 30 day bank bill returns.

Alternative Post Retirement – Illustrative Asset Allocation

- ❑ Return = 8% pa
- ❑ Biggest drawdown = 14% (Oct-07 to Feb-09)
- ❑ Income = 7% pa growing at CPI
- ❑ Liquidity = More important
- ❑ Residual capital = 90% of initial investment

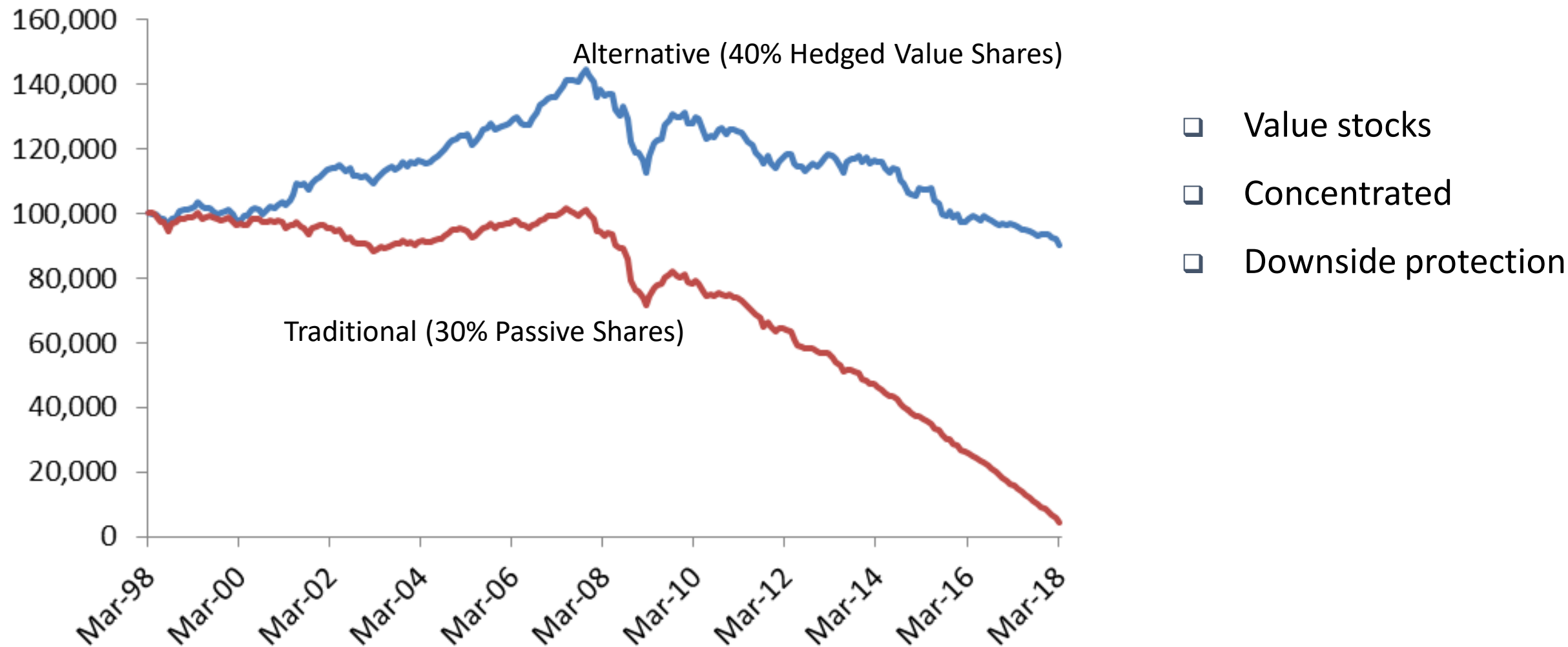


Return & drawdown based on implementing strategy over 20 years to March 2018 and includes estimated franking credits.

Return on hedged shares reflects equally weighted portfolios of 30/60 ASX100/ASX200 constituents with highest dividend/free-cash-flow yields before/after April 2004 with equally weighted 'hedge' over 30/60 constituents with worst momentum characteristic representing 30% of portfolio.

Return on bank deposits & bonds reflects 30 day bank bill returns.

Capital Preservation – 7% Initial Income Growing at CPI

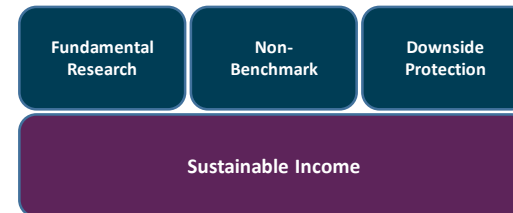
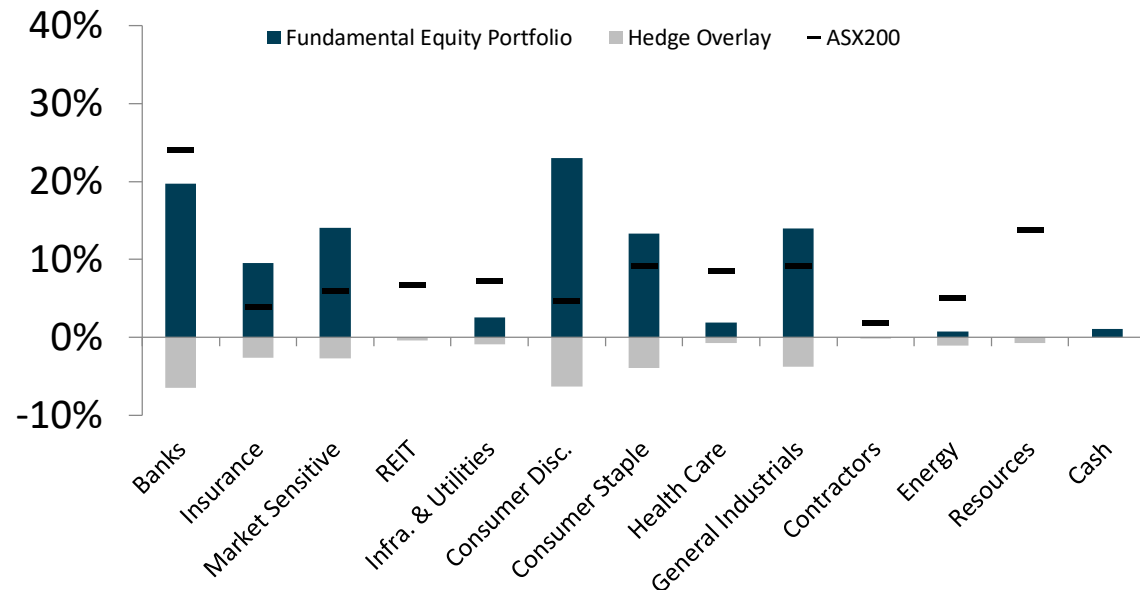
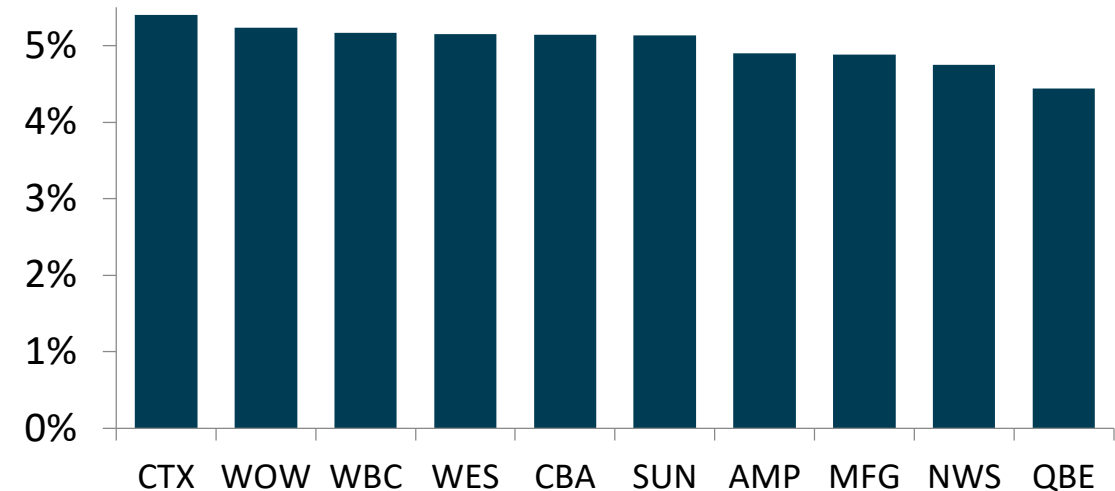


Return based on implementing strategy over 20 years to March 2018 and includes estimated franking credits
Traditional Asset Allocation represents 30% passive shares & 70% bank bills. Alternative Asset Allocation represents 40% hedged value shares with 30% downside protection.

Outline

- ❑ Amazon revisited – muted impact so far
- ❑ Rethinking post retirement asset allocation
- ❑ Fund positioning and performance

Current Fund Positioning



Portfolio Analytics	Portfolio	ASX200
Number of Equity Positions	33	200
Net Market Exposure	69%	100%
Active Share	74%	0%
Valuation Upside	+21%	-16%
Trailing Free Cash Yield	5.1%	5.0%
Gross Distribution Yield	7.2%	5.5%
Price / Earnings Ratio	15.0x	17.3x

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

Outcomes

Fundamental Research

Non-Benchmark

Downside Protection

Sustainable Income



Monthly Distribution Detail: Cents per Unit

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total	Franking
FY2013	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	1.29	6.79	2.26
FY2014	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.51	0.52	6.13	1.98
FY2015	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	0.52	6.24	2.20
FY2016	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.52	6.35	1.92
FY2017	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	6.36	2.02
FY2018	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.52	6.35	1.84
FY2019	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	0.53	6.36	1.90

Highlighted data are estimates at the date of this presentation

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 2018.

Merlon Australian Share Income Fund franking 1.94% p.a., ASX200 franking 1.52% p.a.

* % of ASX200 Risk represents the Fund’s statistical beta relative to the ASX200

Fund Performance

Fundamental
Research

Non-
Benchmark

Downside
Protection

Sustainable Income

	FY2018 (%)	FY2017 (%)	FY2016 (%)	FY2015 (%)	FY2014 (%)	FY2013 (%)	FY2012 (%)	3 Years (% pa)	5 Years (% pa)	7 Years (% pa)
ASX200 Return	14.5	15.5	2.2	7.2	18.9	24.3	-5.1	10.5	11.5	10.6
Share Portfolio Excess Return	-6.9	8.0	4.8	2.3	-2.7	11.7	1.7	1.9	1.1	2.5
Hedge Overlay	-2.4	-5.6	-0.9	-1.7	-3.5	-9.3	2.6	-2.9	-2.7	-2.7
Portfolio Return (before fees)	5.1	17.9	6.1	7.8	12.8	26.7	-0.8	9.5	9.8	10.5
Portfolio Return (net of fees)	4.2	16.8	5.1	6.8	11.8	25.5	-1.7	8.5	8.8	9.5
Gross Yield	7.0	7.8	7.5	7.6	7.6	9.8	10.1	7.4	7.5	8.2
Average Daily Market Exposure	68%	68%	70%	70%	69%	69%	69%	69%	69%	70%

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 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...



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