

Merlon Australian Share Income Fund

Webinar – 31 January 2019

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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

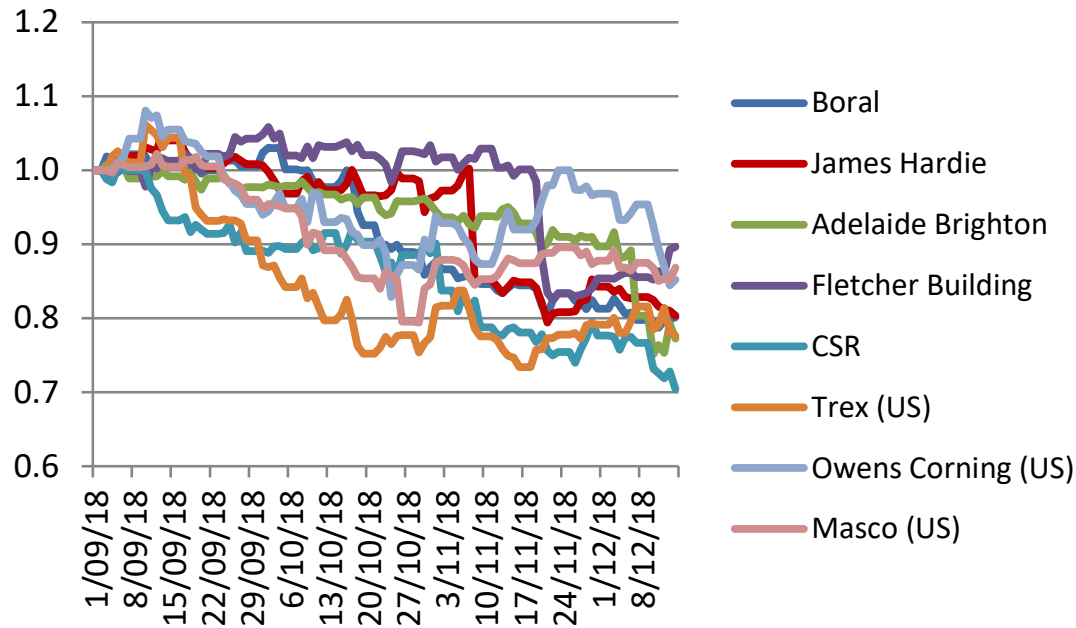
Paid monthly and majority franked

Outline

- ❑ Housing cracks present material opportunities
- ❑ Asaleo divestment well received
- ❑ Fund positioning and performance

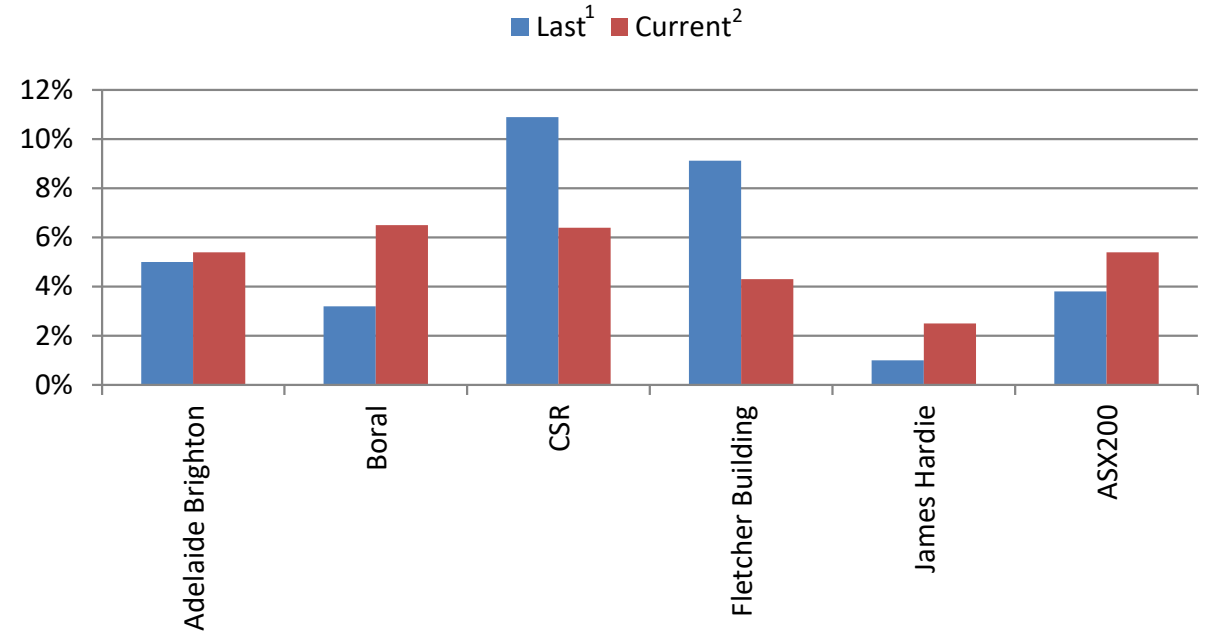
Building materials stocks have sold off

Share price performance relative to respective index



Source: Bloomberg. Analysis: Merlon. Boral, James Hardie, Adelaide Brighton, Fletcher Building and CSR performance is relative to the ASX 200. Trex, Owens Corning and Masco is relative to the S&P 500

Free cash flow yield



¹ Last reported Financial year FCF divided by current enterprise value

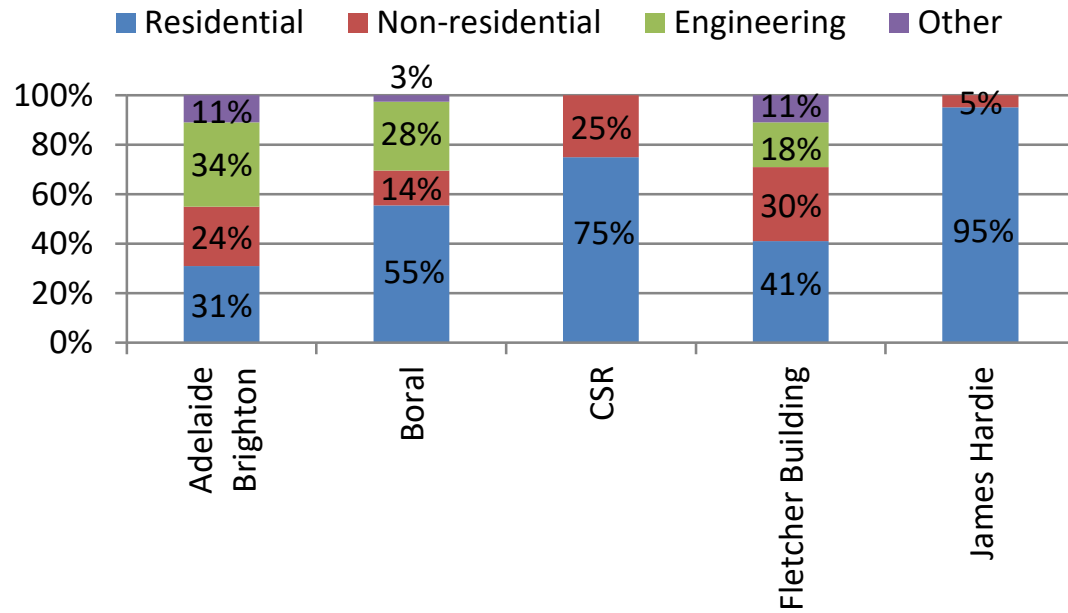
² Current refers to current estimated FCF divided by current enterprise value

Source: Company reports. Analysis: Merlon. Fletcher Building free cash flow yield excludes cash outflows associated with their loss-making building projects given this business is being exited.

Mid-cycle housing starts a key driver of sustainable free cash flow

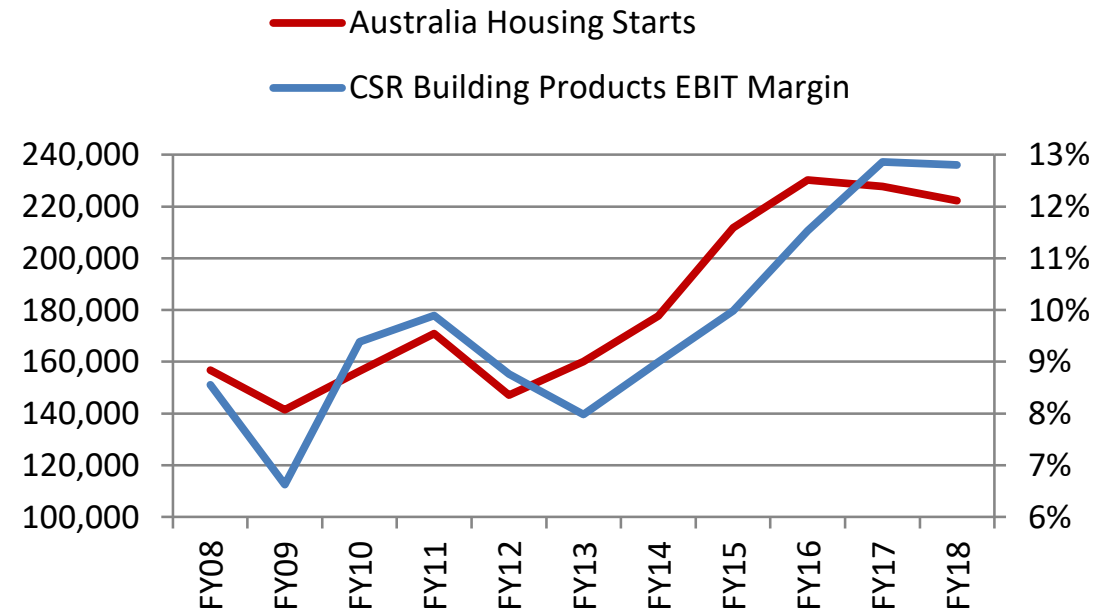


Revenue exposure by end market



Source: Company reports. Analysis: Merlon.

Australian housing starts and CSR's Building Products EBIT margin

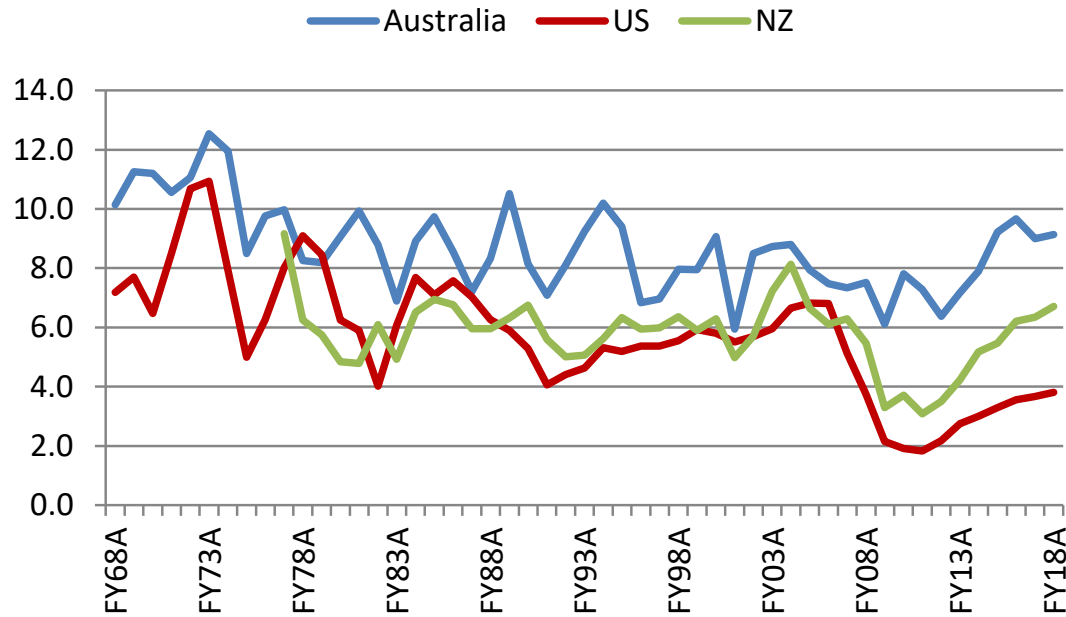


Source: ABS, Company reports. Analysis: Merlon.

Sector offers strong value given forecast housing starts per capita

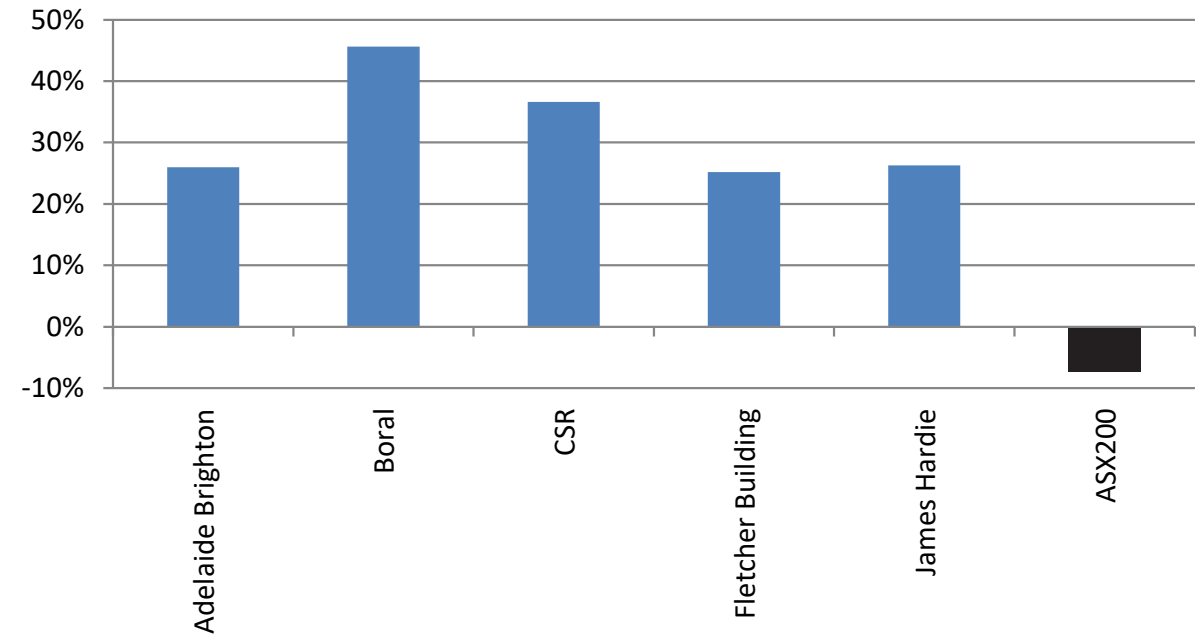


Housing starts per 1,000 persons



Source: ABS, Stats NZ, US Census Bureau. Analysis: Merlon.

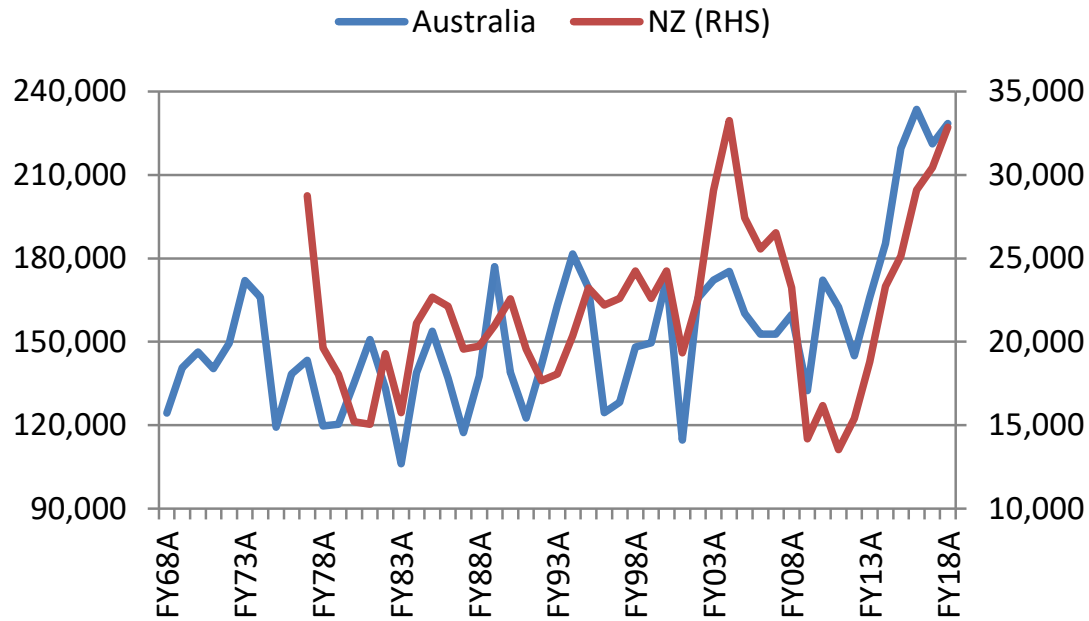
Expected returns (Merlon valuations)¹



¹ As at 31 December 2018. Past performance is not a reliable indicator of future performance
Source: Company reports. Analysis: Merlon.

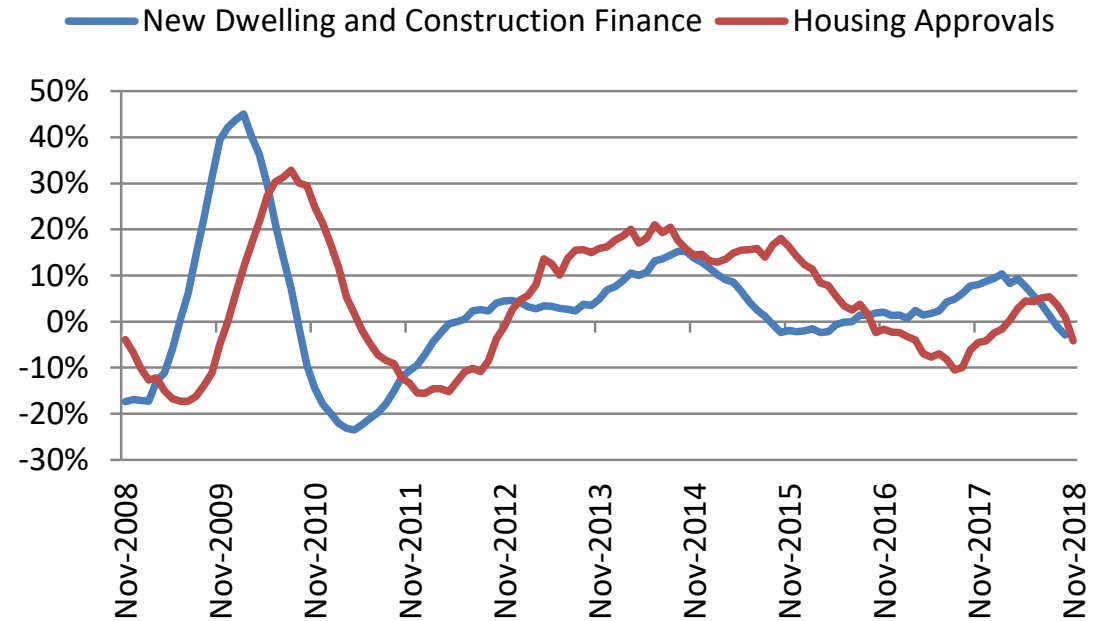
Australian cycle turning down, NZ also peaking

Australian housing starts and NZ housing approvals



Source: ABS, Stats NZ. Analysis: Merlon.

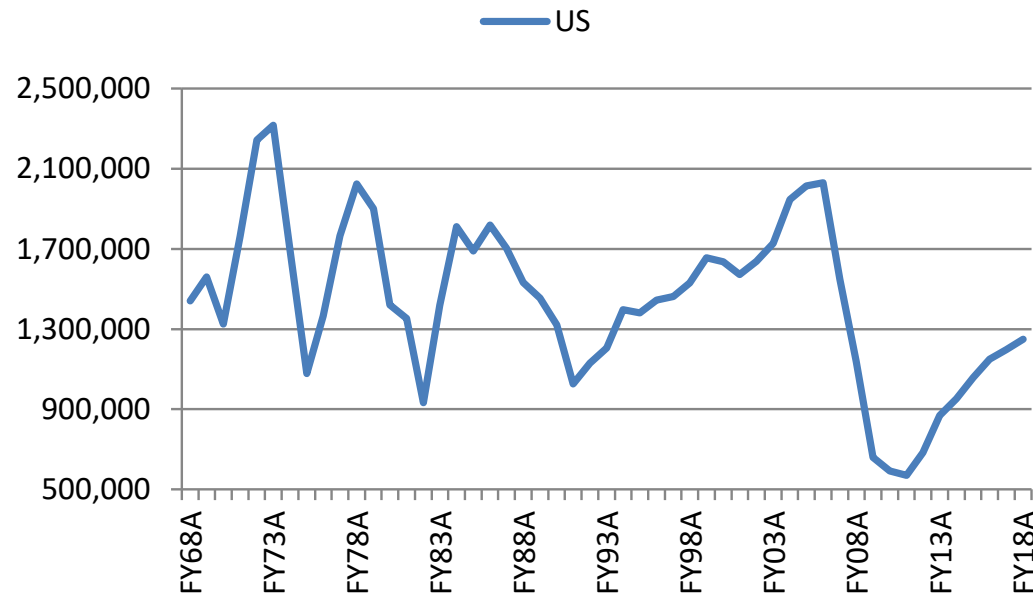
Rolling annual growth in Australian housing finance and housing



Source: ABS, Company reports. Analysis: Merlon.

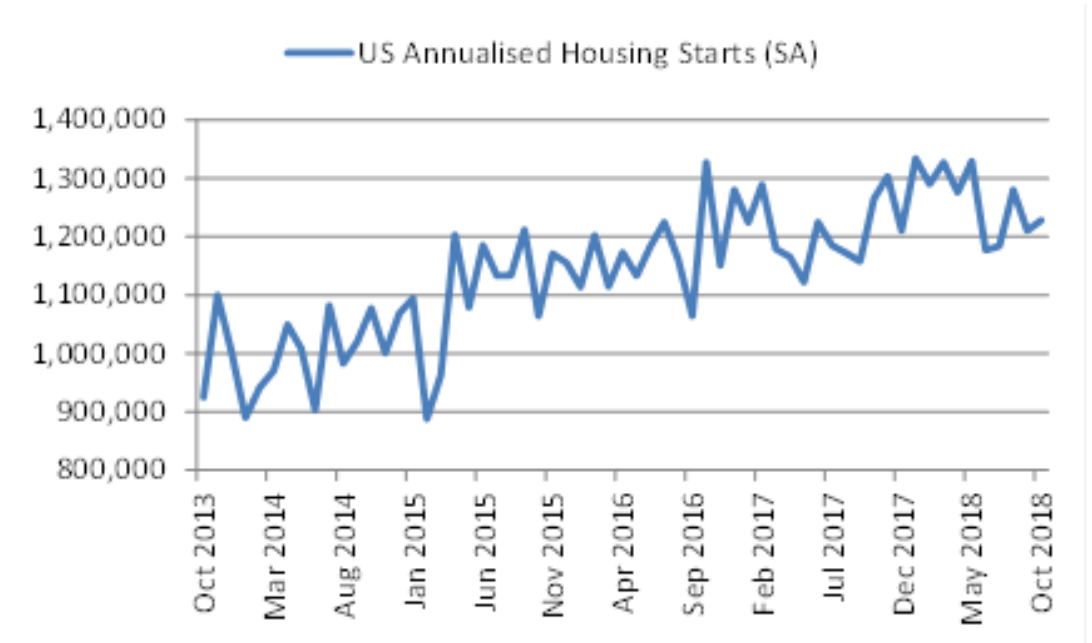
US cycle below trend but might peak below mid-cycle this time

US housing starts



Source: US Census Bureau. Analysis: Merlon

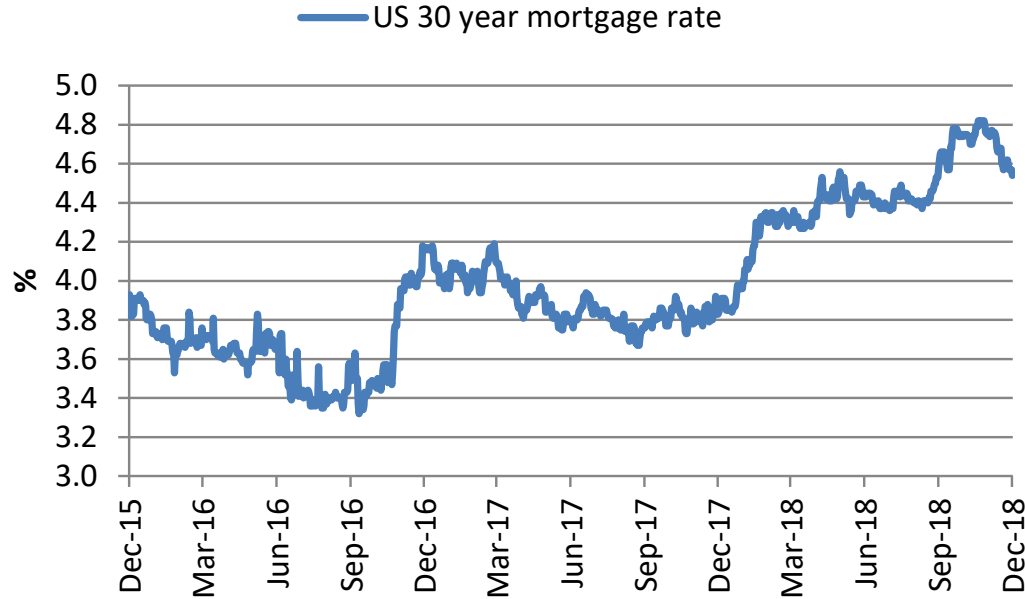
US annualised housing starts (seasonally adjusted)



Source: US Census Bureau. Analysis: Merlon.

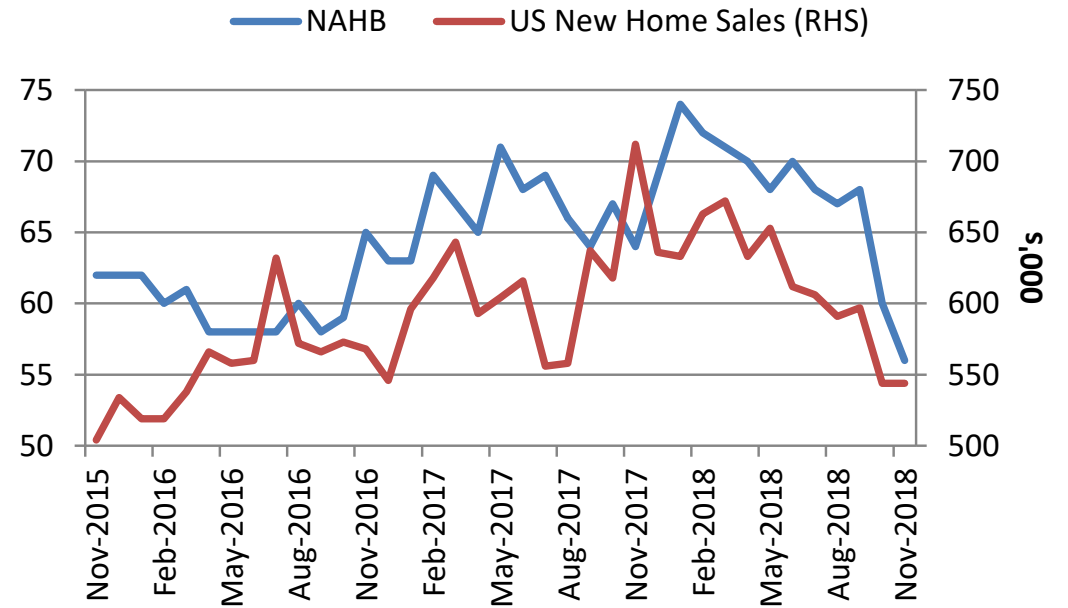
US leading indicators are bearish

US 30 year mortgage rate



Source: Bloomberg. Analysis: Merlon.

US NAHB* and US new home sales



Source: Bloomberg. Analysis: Merlon.

* The National Association of Home Builders (a measure of US homebuilder's activity)

Room to increase our holdings in the sector

- ❑ Maintain position in Fletcher Building
- ❑ Recently acquired a position in Boral
- ❑ While the remaining stocks look also to offer value, we need increased conviction

Outline

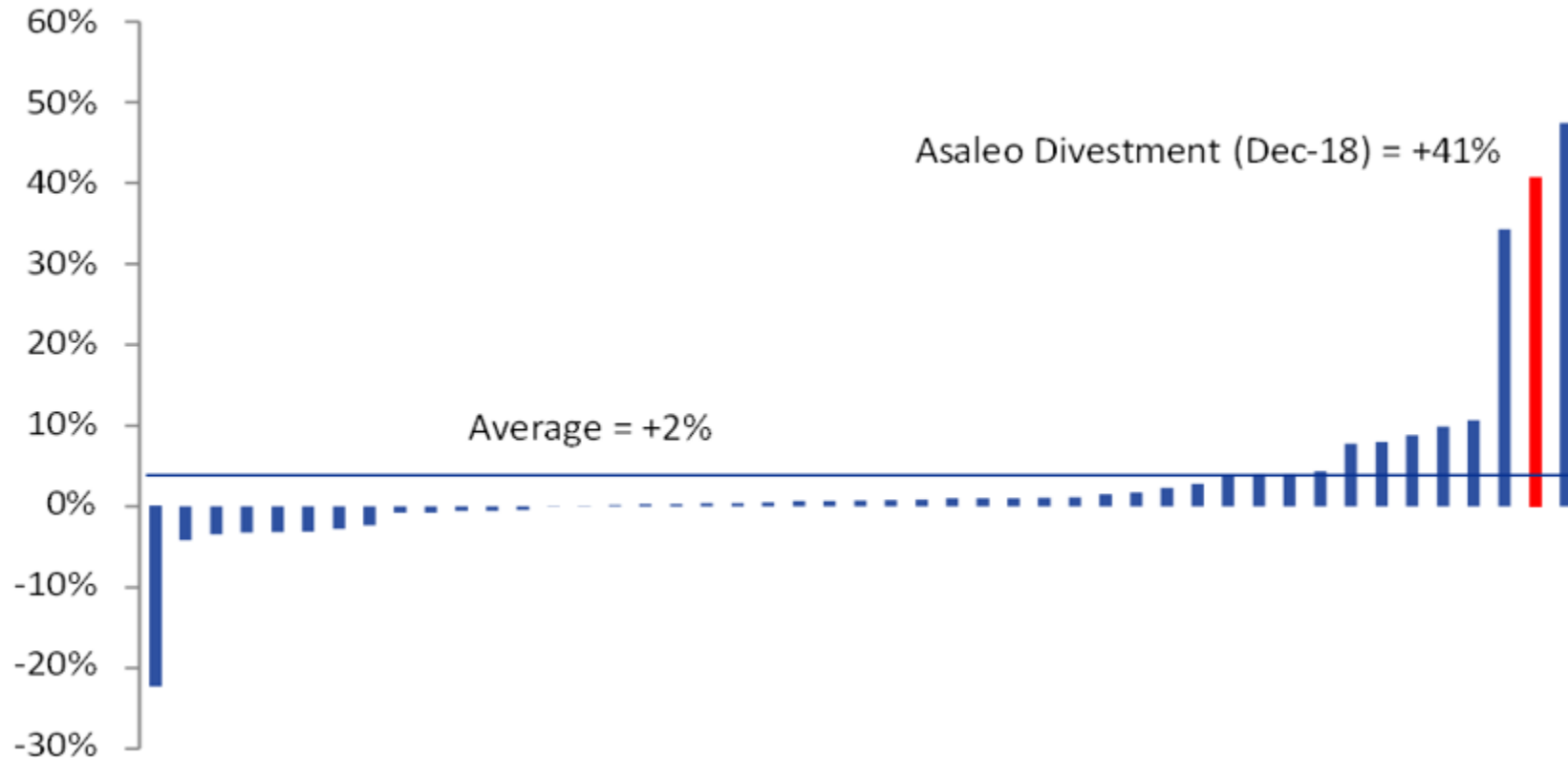
- ❑ Housing cracks present material opportunities

- ❑ Asaleo divestment well received

- ❑ Fund positioning and performance

No tears over consumer tissue sale

Share Price Reaction on Day of Divestment Announcement
(ASX100 Companies, 2000 to Today, Proceeds > 10% of Enterprise Value)

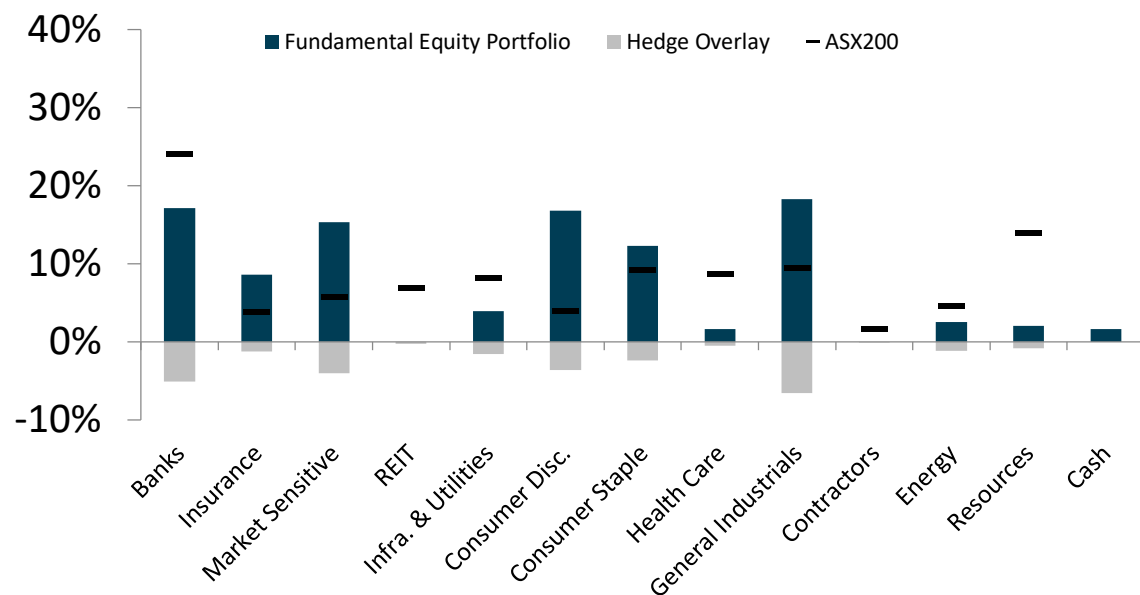
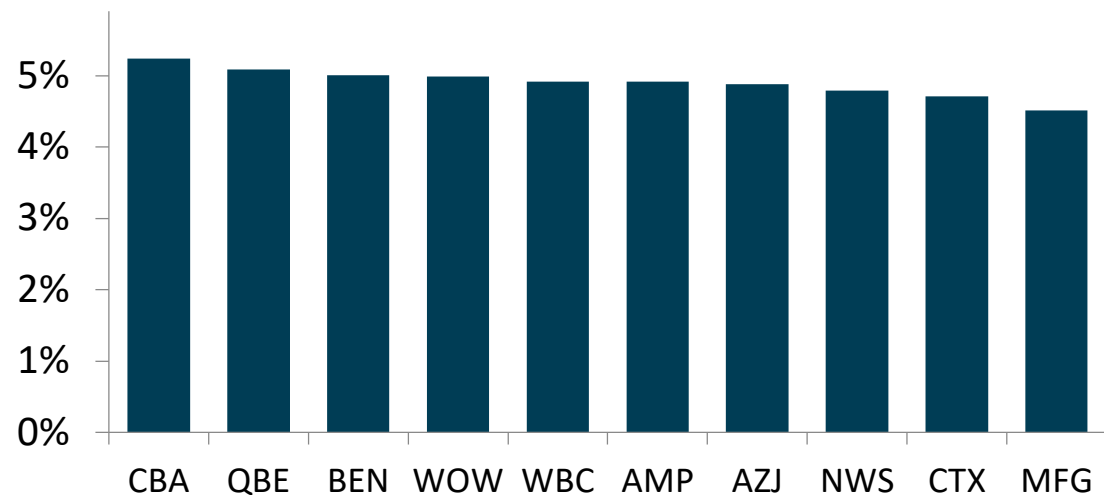


Source: Bloomberg, share price reaction relative to all ordinaries accumulation index Asaleo Care reaction as at 2pm on day of announcement. Note that Asaleo Care is not an ASX100 company.

Outline

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Current Fund Positioning

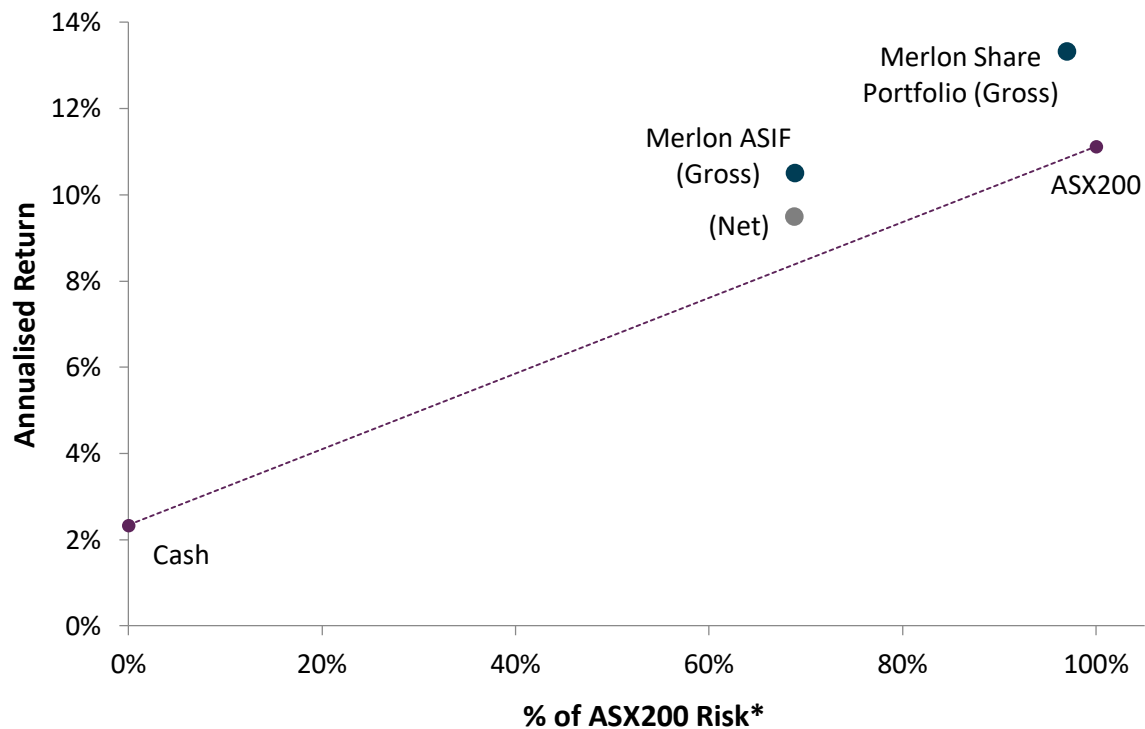


Portfolio Analytics	Portfolio	ASX200
Number of Equity Positions	36	200
Net Market Exposure	71%	100%
Active Share	74%	0%
Valuation Upside ¹	+37%	-6%
Trailing Free Cash Yield	7.1%	5.1%
Gross Distribution Yield	7.8%	6.2%
Price / Earnings Ratio	13.7x	15.6x

Portfolio as at 31 December 2018, ¹Valuation Upside based on Merlon proprietary valuations as at 31 December 2018.

Outcomes

Total Return vs Risk (7 Years)



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	0.3	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 as at 31 December 2018.

Merlon 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. Past performance is not an indication of future performance.

Merlon Australian Share Income Fund Performance



	FY19TD	FY2018	FY2017	FY2016	FY2015	FY2014	FY2013	FY2012	3 Years	5 Years	7 Years
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%pa)	(% pa)	(% pa)
ASX200 Return	-6.1	14.5	15.5	2.2	7.2	18.9	24.3	-5.1	8.1	7.1	11.1
Share Portfolio Excess Return	0.2	-6.9	8.0	4.8	2.3	-2.7	11.7	1.7	1.3	1.4	2.2
Hedge Overlay	1.9	-2.4	-5.6	-0.9	-1.7	-3.5	-9.3	2.6	-2.0	-1.6	-2.8
Portfolio Return (before fees)	-4.0	5.1	17.9	6.1	7.8	12.8	26.7	-0.8	7.4	6.9	10.5
Portfolio Return (net of fees)	-4.5	4.2	16.8	5.1	6.8	11.8	25.5	-1.7	6.4	5.9	9.5
Gross Yield	0.5	7.0	7.8	7.5	7.6	7.6	9.8	10.1	7.4	7.4	8.1
Average Daily Market Exposure	70%	68%	68%	70%	70%	69%	69%	69%	69%	69%	70%

Returns for the Fund and ASX200 grossed up for accrued franking credits and the Fund return is stated as at 31 December 2018. Past performance is not an indication of future performance.

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Portfolio Diversification

*No reference to
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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



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).



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. Adrian holds a BMathFin (Hons) and CFA.

Thank you