

# SANDON CAPITAL

## Sandon Capital Activist Fund

August 2018 Monthly Report

Entry/Exit Prices: \$1.8124/\$1.7980

### Performance Results (calculated net of all fees, assuming reinvestment of distributions and using unit mid-price. Indices are before fees.)

	1 month	1 year	3 yrs (p.a.)	5 yrs (p.a.)	Annualised since Fund inception	Annualised volatility since Fund inception	Total Return since Fund inception
SCAF	3.0%	10.8%	12.2%	12.4%	12.6%	7.7%	190.2%
S&P/ASX 200 Accum.	1.4%	15.4%	11.5%	8.9%	8.7%	11.7%	111.6%
Small Ordinaries Accum.	2.5%	22.3%	16.9%	9.2%	5.3%	14.5%	59.8%

### Net Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	1.0%	-0.3%	-0.7%	2.9%	-4.2%	4.2%	4.4%	-0.6%	2.3%	2.4%	3.5%	-0.9%	14.5%
2011	1.3%	0.6%	0.5%	1.3%	-1.9%	-2.7%	-0.1%	-0.1%	1.9%	2.1%	2.5%	2.2%	7.8%
2012	-1.0%	0.4%	1.8%	2.1%	-2.8%	-1.0%	3.3%	0.5%	2.5%	2.8%	0.1%	2.2%	11.1%
2013	2.1%	3.2%	-1.4%	1.3%	2.8%	-3.7%	6.9%	0.7%	6.5%	5.7%	0.3%	0.3%	27.1%
2014	-0.3%	1.6%	1.9%	-0.3%	2.0%	0.5%	3.9%	2.1%	2.8%	-0.5%	1.0%	0.8%	16.7%
2015	-0.2%	0.0%	1.0%	0.3%	0.2%	-4.1%	3.9%	-4.9%	2.3%	3.5%	1.0%	0.9%	3.6%
2016	-1.3%	-3.3%	2.7%	1.8%	0.8%	0.7%	4.6%	0.0%	1.7%	1.5%	3.3%	0.1%	13.1%
2017	4.4%	-3.4%	0.2%	-2.0%	-1.3%	1.7%	1.3%	3.9%	-2.6%	0.2%	0.4%	2.9%	5.5%
2018	1.4%	-3.6%	2.2%	-0.2%	1.6%	3.1%	2.1%	3.0%					9.8%

### Portfolio Exposures

Net Exposure	88%	Long Positions	34
Net Cash	12%	Short Positions	3

### Fund Commentary

The Fund return for August was 3.0%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 12.6% per annum. Cash levels ended the month at approximately 12%.

Specialty Fashion Group Ltd (SFH) (~2.1%), Consolidated Operations Group Ltd (COG) (~1.9%) and IDT Australia Ltd (IDT) (~1.7%) were the main contributors for the month. The main detractors were Iluka Resources Ltd (ILU) (~-1.9%) and Centrepoint Alliance Ltd (CAF) (~-1.1%) with both companies delivering results that underwhelmed investors.

Late last year, SFH was described as a 'beleaguered company' with 'struggling brands'. According to press reports at the time, the banks were breathing down its neck and the company was going to find it nigh on impossible to survive the onslaught from Amazon's arrival in Australia. Fast forward nine months and following the sale of a portfolio of brands to Noni B Ltd, SFH and its remaining City Chic brand is (rightfully) seen as a high growth business with a strong balance sheet and the capacity to undertake meaningful capital management. We believe the company's significant cash and franking balances, combined with the recent Adjustment to Share Capital should facilitate meaningful dividends to shareholders for the foreseeable future. We congratulate Chair, Anne McDonald, and the Board on the actions taken over the past six months and look forward to continued strong performance from SFH's City Chic Brand as well as shareholder friendly capital management initiatives.

ILU's share price was sold down following a disappointing 1H result. In particular, its Sierra Rutile operations where rising costs and capital expenditure forecasts were viewed negatively by the market. We believe the negative share price reaction further highlights why ILU should spin out its immensely valuable Mining Area C (MAC) royalty. Royalties have no exposure to costs or capital expenditure, which are two of the key reasons why they trade at such a significant premium to the underlying assets. As long as the MAC Royalty remains housed within Iluka, it will continue to be priced at its lowest common denominator; a cyclical and capital-intensive mining company with finite reserves. At current exchange rates and commodity prices, we estimate the MAC Royalty will generate ~\$150m per annum in pre-tax cash flows when the South Flank Project is running at capacity. We believe this stream of pure cash flows would be much more highly valued by the market were it to trade on a standalone basis.

Despite the strength in equity markets, we continue to find pricing anomalies in the market. We expect to a number of investments to convert to cash over the next month, which will allow us to take advantage of new opportunities.

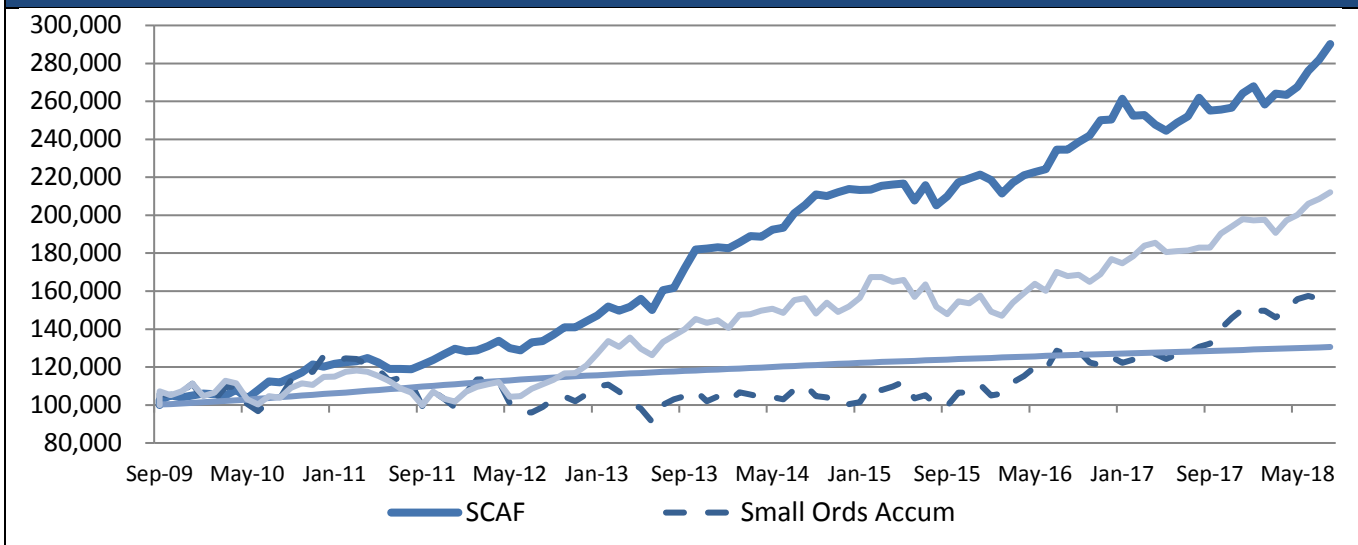
## Fund Description

The objective of the Fund is to deliver returns to investors through a combination of capital growth and distributions. The Fund aims to achieve this objective by seeking to invest in opportunities that are considered by Sandon Capital to be trading below their intrinsic value and that offer the potential of being positively influenced by investors taking an active role in proposing changes in the areas of corporate governance, capital management, strategic and operational issues, management arrangements and other related activities. Neither returns nor capital are guaranteed.

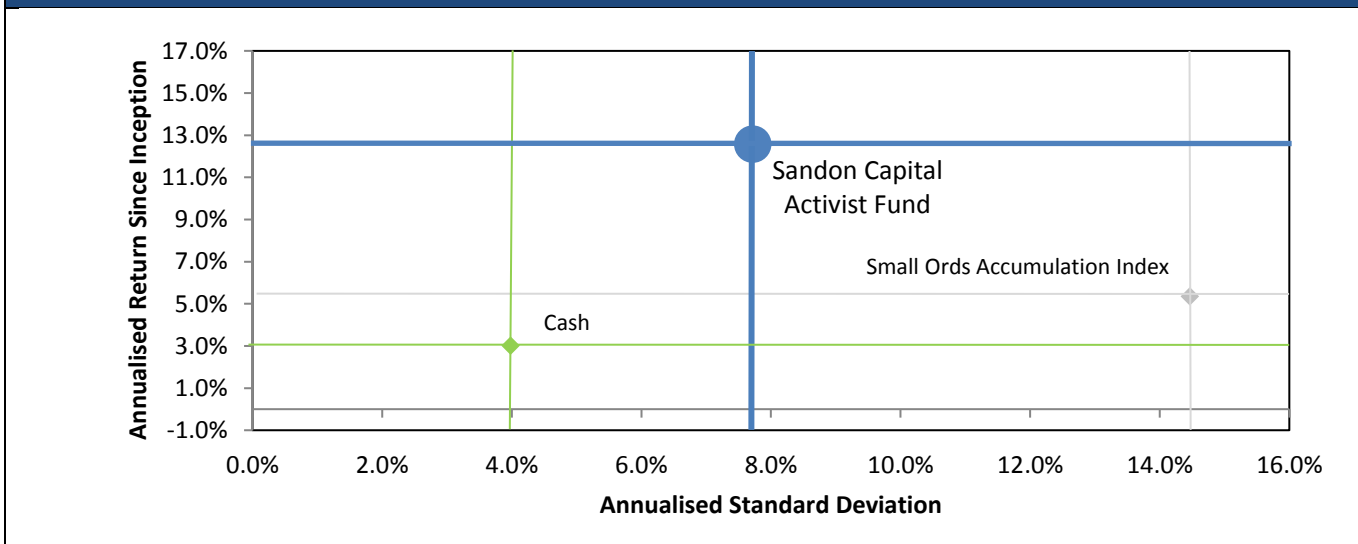
## Fund Details

Structure	Wholesale unit trust	Minimum Investment	\$250,000 (or as agreed with trustee)
Trustee	Fundhost Ltd	Trustee Fees	0.21%
Custodian	National Australia Bank	Management Fees	1.33%
Fund Auditor	EY	Performance Fees	15.375% of returns above cash
Investment Manager	Sandon Capital Pty Ltd	Highwater Mark	Yes
Website	www.sandoncapital.com.au	Buy/Sell Spread	±0.40%
Inception	4 Sep 2009	Applications/Withdrawals	Monthly/Quarterly

## Growth of \$100,000 invested since inception (assumes reinvestment of distributions)



## Comparison of Annualised Return versus Volatility



Source for all charts: Sandon Capital, Bloomberg

Note: SCAF returns are net of all fees and expenses. Fund inception is 4 September 2009.

Fundhost Limited (ABN 69 092 517 087) (AFSL 233045) ("Fundhost") as trustee of, and issuer of units in, the Sandon Capital Activist Fund ("Fund"). Sandon Capital Pty Limited (ABN 98 130 853 691) (AFSL 331 663) ("Sandon Capital") is the Investment Manager of the Fund.

Fund performance is after fees and assumes distributions are reinvested. Past performance is not a reliable guide to future performance. This information has been prepared without taking into account your investment objectives, financial situation, or needs. Before making an investment decision you should consider the appropriateness of the information having regard to these matters. Before you invest it is important that you read and understand the terms set out in the Sandon Capital Activist Fund Information Memorandum ("IM") dated 25 October 2013. In particular, it is important that you understand the risks associated with an investment in the Fund set out on page 6 of the IM.

Information provided by the Investment Manager are views of the Investment Manager only and can be subject to change. While information in this report is given in good faith and is believed to be accurate, Fundhost and Sandon Capital give no warranty as to the reliability or accuracy of the information, nor accept any responsibility for any errors or omissions of third parties. To the extent permitted by law, neither Fundhost nor Sandon Capital, including their employees, consultants, advisors, officers or authorised representatives are liable for any loss or damage arising as a result of reliance placed on the contents of this report.