

# SANDON CAPITAL

## Sandon Capital Activist Fund

December 2015 Monthly Report

Entry/Exit Prices: \$1.5507/\$1.5383

### 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 inception	Annualised volatility since inception	Total Return since inception
SCAF	0.9%	3.6%	15.4%	13.0%	13.4%	7.8%	121.4%
S&P/ASX 200 Accum.	2.7%	2.6%	9.2%	7.0%	7.5%	12.6%	57.9%
Small Ordinaries Accum.	3.9%	10.2%	1.6%	-2.5%	1.6%	15.8%	10.7%

### Net Monthly Returns

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009									2.5%	2.4%	-0.9%	1.0%	5.0%
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%

### Portfolio Exposures

Net Exposure	86%	Long Positions	32
Net Cash	14%	Short Positions	nil

### Fund Commentary

The Fund delivered a return of 0.9% in December, bringing total returns (net of all fees and expenses) since inception to the equivalent of 13.4% per annum.

Volatility in the market continued to provide good opportunities for adding to existing positions as well as providing new opportunities. Our current cash balance of 14% appears low relative to history – Sandon's cash balance has averaged ~30% since inception – however we expect ~15% of the investment portfolio to be converted to cash in the next 6-8 weeks as capital returns and takeovers are completed. Thus, we have significant firepower to take advantage of the current volatility in the market.

The main contributor to this month's performance was Onthehouse Holdings Ltd (OTH), which announced on Christmas eve that it had received an unsolicited, indicative non-binding 75.5 cents per share takeover proposal from a Macquarie-lead consortium, which included OTH Directors Michael and Daniel Dempsey and CoreLogic. It is worth reminding readers of our OTH investment thesis: there are two core businesses, Real Estate Solutions (RES) and Consumer Online (CO). The RES business provides mission critical software to real estate agents and delivered \$11.3 million of EBITDA in FY15, representing a margin of 53%. We believe this is a robust, high cash generative software business. Consumer Online, which had aspirations of disrupting the dominance of Realestate.com.au and Domain in real estate listings, has distracted investors from the significant value that exists in the RES business. While it is still far from certain that a

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proposal will emerge from the consortium, we remain confident of the future prospects for OTH. Funds managed by Sandon recently increased their ownership of OTH to 6.1%.

Armidale Investment Corporation Ltd (AIK) completed its rights issue in late December. Funds managed by Sandon exercised all their rights and applied for additional shares in the rights shortfall and now own 13.2% of AIK.

Also during December, Alchemia Ltd (ACL) announced details of plans to return cash of 9.3 cents per share. If approved by shareholders in late January 2016, the return of capital will represent a substantial return on the Fund's investment in ACL. The Funds will remain invested in the rump of ACL.

The remainder of the portfolio reported small rises and declines in price for the month. We do not consider any of these noteworthy.

## 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

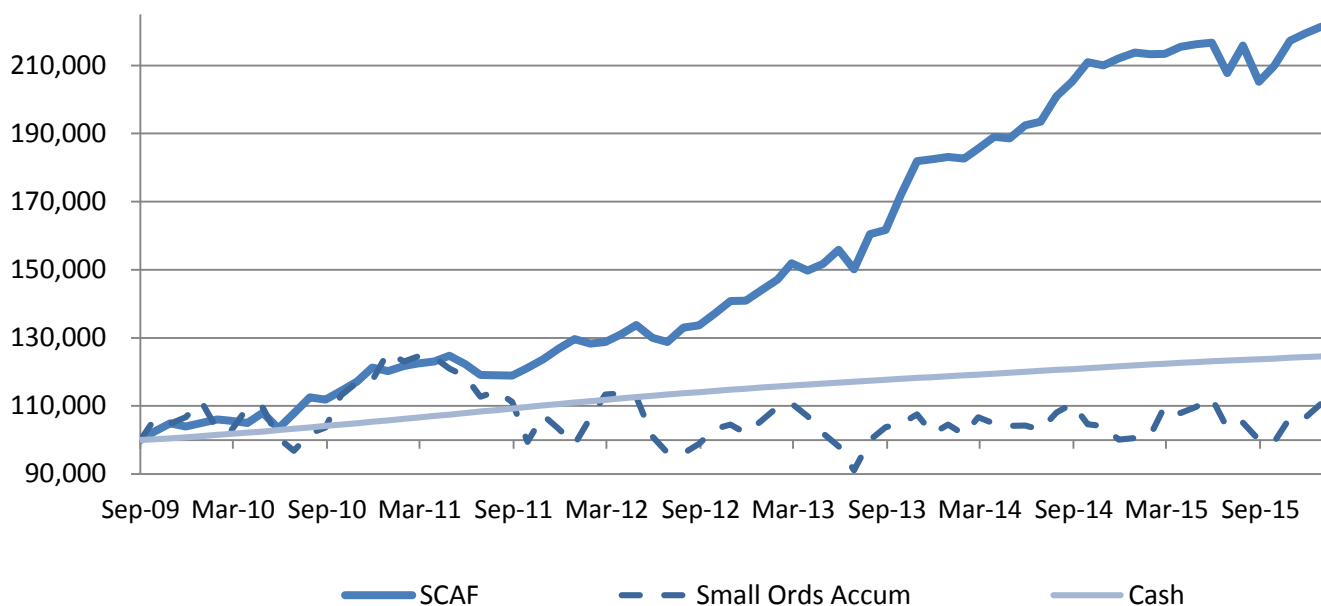
Structure	Wholesale unit trust	Minimum Investment	\$250,000 (or as agreed with trustee)
Trustee	Fundhost Ltd	Trustee Fees	0.21%
Custodian	National Australia Bank	Management Fees	1.33%
Fund Auditor	EY	Performance Fees	15.375% of returns above cash
Investment Manager	Sandon Capital Pty Ltd	Highwater Mark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

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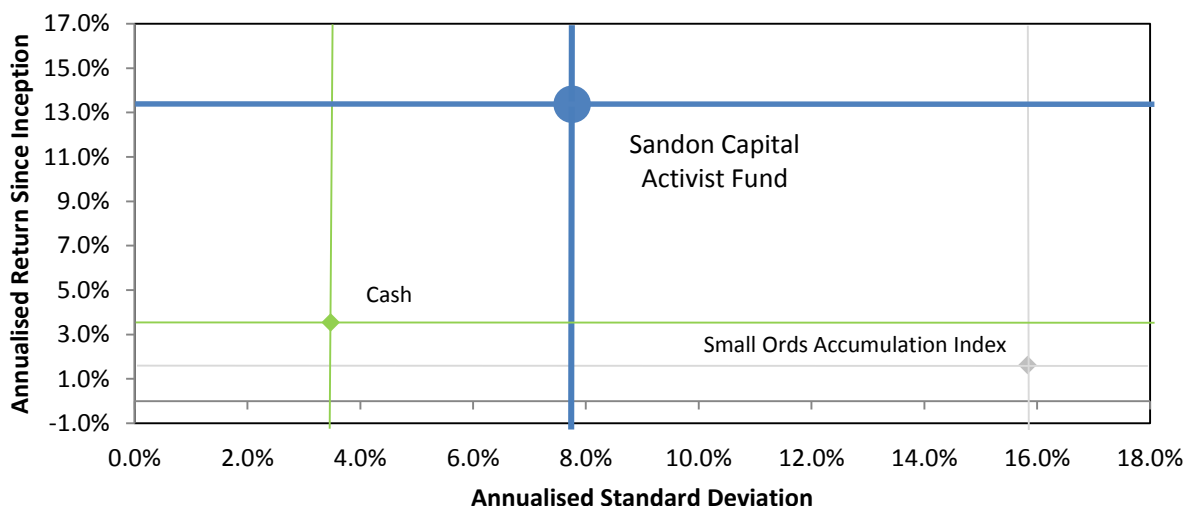
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### Growth of \$100,000 invested since inception (assumes reinvestment of distributions)



### 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.

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