

SANDON CAPITAL

Sandon Capital Activist Fund

December 2016 Monthly Report

Entry/Exit Prices: \$1.6798/\$1.6664

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	0.1%	13.1%	11.0%	14.1%	13.3%	7.6%	150.4%
S&P/ASX 200 Accum.	4.4%	11.8%	6.6%	11.8%	8.1%	12.5%	76.5%
Small Ordinaries Accum.	3.6%	13.2%	6.2%	4.9%	3.1%	15.6%	25.3%

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%
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%

Portfolio Exposures

Net Exposure	84%	Long Positions	34
Net Cash	16%	Short Positions	1

Fund Commentary

The Fund delivered a 0.1% return for December, bringing total returns (net of all fees and expenses) since inception to the equivalent of 13.3% per annum. Cash levels ended the month at approximately 16%.

Iluka Resources Ltd (ILU), whose share price rose ~19%, was the largest positive contributor to the December result. Our thesis is that ILU is undervalued and should spin-off its valuable iron ore royalty. The thesis was made public after correspondence with ILU led us to conclude the status quo would prevail. We have begun engaging with various ILU stakeholders, though this engagement is at very preliminary stages. In the meantime, prices for ILU's mineral sands products have begun to increase. We believe that if these price increases are sustained, they will provide some favourable tailwinds while the core engagement process takes shape. Our thesis on the company and a white paper on the iron ore royalty can both be found at www.sandoncapital.com.au under the "Campaigns" tab.

Armidale Investment Corporation Ltd (AIK) was the largest negative contributor (~-1.9%) as its share price fell after a strong increase in November. We do not consider these moves to be related to value but rather market "noise". Key for us will be the release of the half year results, which will, for the first time, provide a consolidated picture of AIK's performance as an operating company, as opposed to an LIC-style reporting. We believe the half year will provide important baseline comparators for future reporting periods.

The contribution from Tatts Group Ltd (TTS) belies the significance of events during the month. On 14 December, the Pacific Consortium (PC) made itself known to the public with the release of an indicative non-binding proposal to acquire 100% of TTS. PC comprises four parties, being First State Super, North Haven Infrastructure Partners (managed by

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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.

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Morgan Stanley), KKR and Macquarie Bank. Although more complicated than the Tabcorp (TAH) proposal, the PC proposal validates our thesis that the jewel in the TTS crown is the undervalued lotteries business. Their proposal also vindicates TAH's move to gain a 10% stake in TTS in late November. TTS have, correctly in our view, concluded the PC is not superior to the TAH proposal. We remain convinced that the battle for the TTS lotteries business is only just beginning and that the lotteries business remains significantly undervalued by both the TAH merger proposal and now also by the PC indicative proposal. We are preparing further analysis of the lotteries business in light of the additional information provided by TTS when it rejected the PC proposal.

We have continued to accumulate shares in new activist prospects and remain poised to seize opportunities to deploy cash.

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

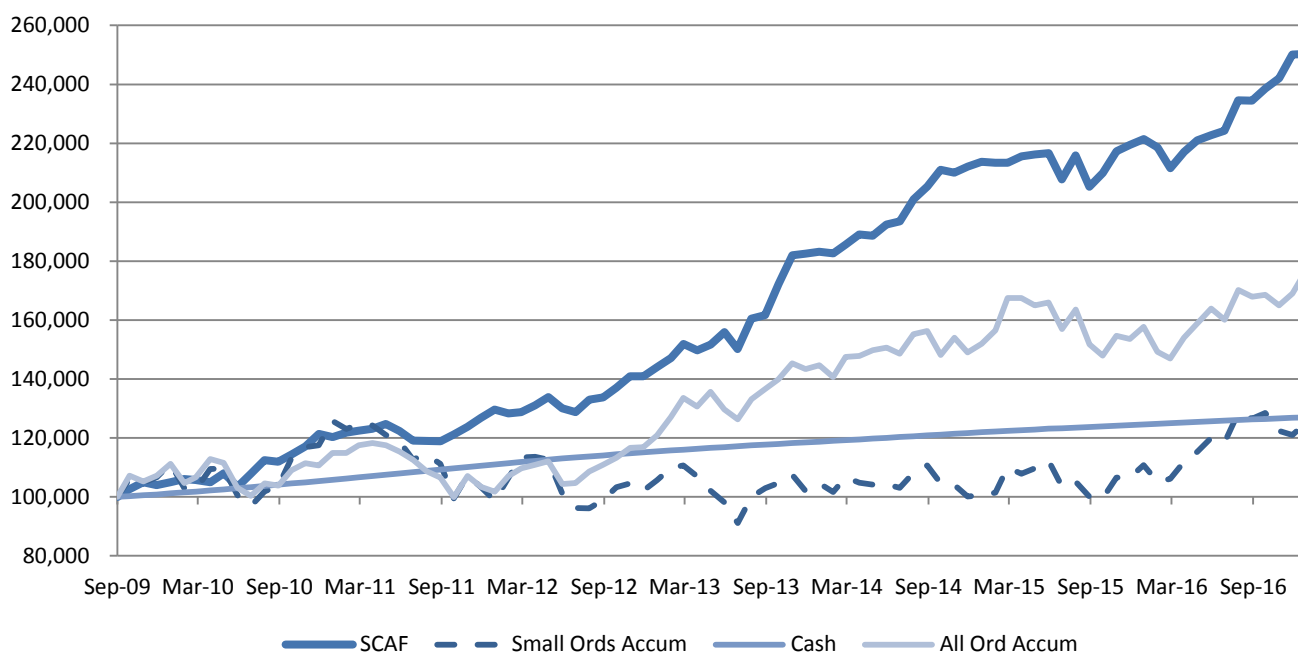
Structure	Wholesale unit trust	Minimum Investment	\$250,000 (or as agreed with trustee)
Trustee	Fundhost Ltd	Trustee Fees	0.21%
Custodian	National Australia Bank	Management Fees	1.33%
Fund Auditor	EY	Performance Fees	15.375% of returns above cash
Investment Manager	Sandon Capital Pty Ltd	Highwater Mark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

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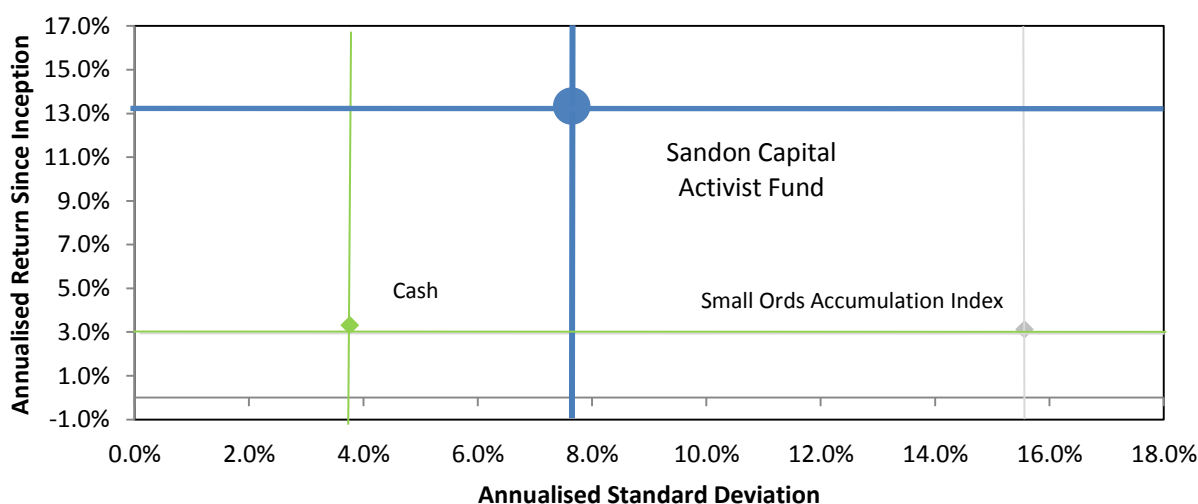
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Growth of \$100,000 invested since inception (assumes reinvestment of distributions)



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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