

SANDON CAPITAL

Sandon Capital Activist Fund

December 2018 Monthly Report

Entry/Exit Prices: \$1.6717/\$1.6584

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	-4.0%	1.3%	6.5%	7.9%	11.1%	8.0%	167.7%
S&P/ASX 200 Accum.	-0.1%	-2.8%	6.7%	5.6%	7.2%	11.8%	91.8%
Small Ordinaries Accum.	-4.2%	-8.7%	7.5%	5.6%	3.5%	14.7%	37.4%

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%	2.6%	-4.6%	-1.8%	-4.0%	1.3%

Portfolio Exposures

Net Exposure	85%	Long Positions	32
Net Cash	15%	Short Positions	0

Fund Commentary

The Fund return for December was -4.0%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 11.1% per annum. Cash levels ended the month at approximately 15%.

The main detractors this month were Fleetwood Corporation Ltd (FWD) (~-1.1%), City Chic Collective Ltd (CCX) (~-0.9%), AIMS Property Securities Fund (APW) (~-0.6%), Consolidated Operations Group Ltd (COG) (~-0.6%) and Coventry Group Ltd (CYG) (~-0.5%). These share price falls were mostly on very low volumes, suggesting most shareholders, like us, are content to sit out the price volatility. Disappointingly, there were very few positive contributors to performance during the month.

Although general market malaise probably contributed in part to FWD's decline, we note that the Company arranged an investor tour of its newly acquired MBS business, and released an accompanying presentation to the market. We continue to have concerns about the current Board and senior management's ability to best exploit the opportunities FWD has before it. As we have written before, we believe the incumbents continue to be reluctant to accept responsibility for a number of self-enforced errors that have contributed to the poor performance of the company over many years. The share price has fallen more than 40% since September 2017 and over the longer term, has fallen 90% since mid-2012. We expect more and more shareholders will come to the same conclusions we have: FWD needs real functional changes to thrive.

CCX's share price fell during the month, likely as some investors anticipated soft Christmas trading conditions. Christmas trading has been mixed, as evidenced by some reports from retail companies early in the new year. Kathmandu Holdings Ltd reported disappointing sales and earnings, however Noni B Ltd reported sales and earnings at the top end of market expectations. We believe CCX's omni-channel sales model (bricks and mortar as well as online) and well-defined customer focus places it in good stead to weather any short-term challenges.

During the month, we closed out our two remaining short positions. Both were very profitable. We continue to look for new short opportunities (as well as revisiting old favourites).

Markets have continued to fall globally, though Australia has fared better than the US and Europe. We have previously made brief comments about the factors we believe have contributed to these declines (including rising interest rates, US/China uncertainties and expensive asset prices). We believe these continue to be well and truly at play. The Hayne Royal Commission in Australia appears to be having an impact on the economy, with bank property lending significantly curtailed, and it seems many sectors of the economy are on hiatus from any meaningful decisions pending the outcome of the Federal Election (due by May this year).

The pendulum of “community expectations” continue to swing in the anti-business direction. While the actions of executives (and the directors supposed to be overseeing them) of some businesses deserve the heat they are receiving, we believe there are risks the pendulum may swing too far. Moves to increased government regulation and penalties will ultimately serve to penalise shareholders more than any others. This is why we believe shareholders should take more active interest in what companies are actually doing, rather than just accepting the spin. Where there is a dissonant shareholder voice raising issues, more passive shareholders should be more willing to listen and act accordingly. We believe well-engaged shareholders (the owners of a company) are best placed to reign in corporate malfeasance and excesses, far better than government or the community.

We have taken the opportunity of falling markets to selectively add to some existing positions, though some of the shares we would have most liked to buy did not fall by much. We are also evaluating a number of new opportunities, some of which may make it into the portfolio. On both counts, we remain patient.

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.

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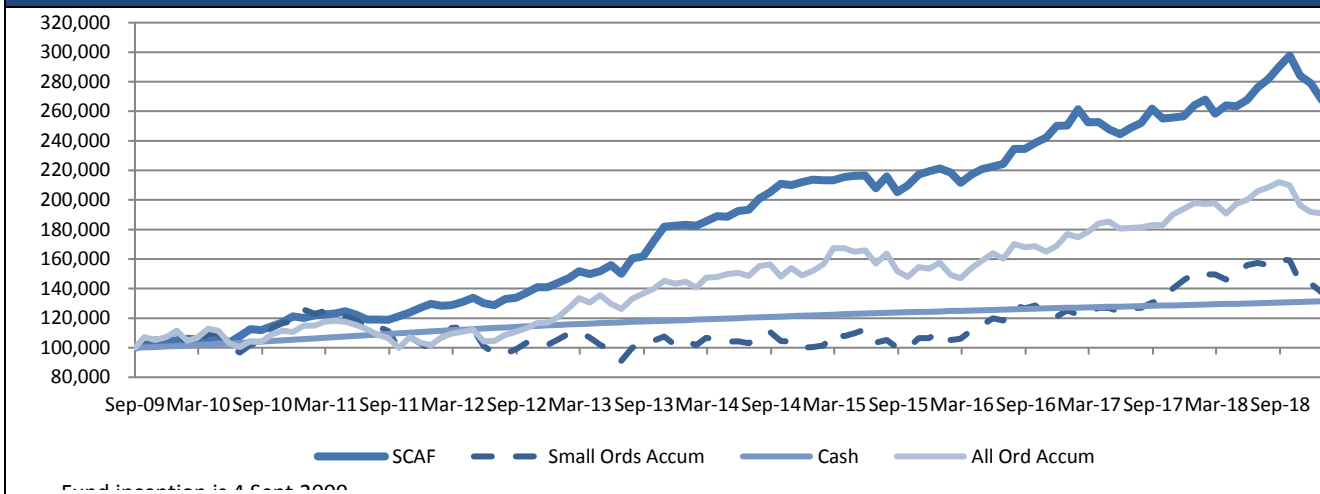
Fund Description

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.

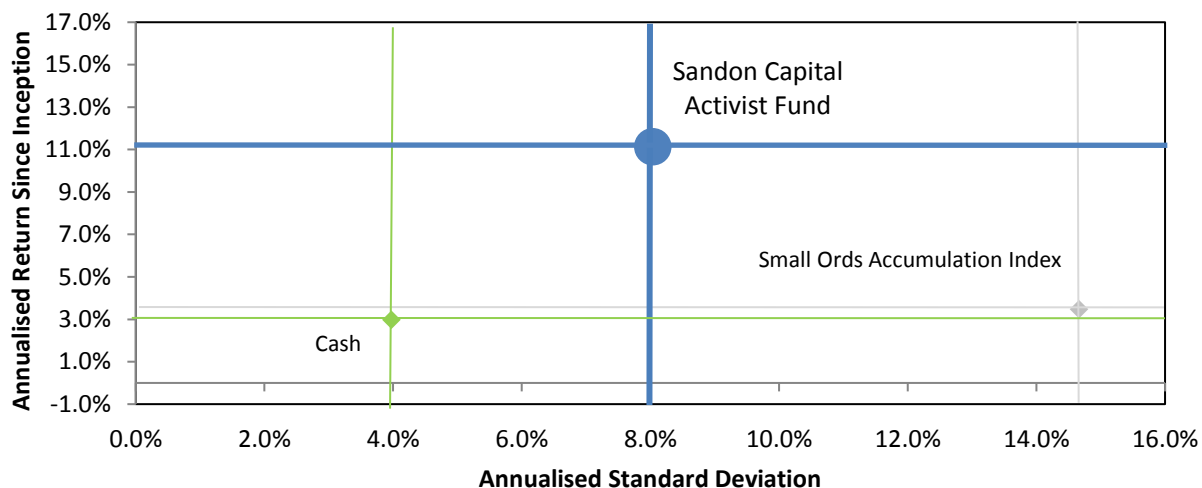
Fund Details

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.

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