

# SANDON CAPITAL

## Sandon Capital Activist Fund

February 2015 Monthly Report

Entry/Exit Prices: \$1.5876/\$1.5749

### 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	0.3%	15.2%	18.4%	15.1%	14.9%	7.4%	113.9%
S&P/ASX 200	6.9%	14.5%	16.3%	9.8%	10.1%	12.4%	70.0%
Small Ordinaries	8.4%	3.1%	-1.0%	1.4%	1.8%	16.1%	10.0%

### 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%	0.3%											0.1%

### Portfolio Exposures

Net Exposure	68%	Long Positions	28
Net Cash	32%	Short Positions	nil

### Fund Commentary

The Fund delivered a return of 0.3% in February, bringing total returns (net of all fees and expenses) since inception to the equivalent of 14.9% per annum. The broader market reached post-GFC highs during the month, and we continued to sit comfortably on the sidelines, with more than 30% of our assets held in cash. We remind ourselves the single biggest determinant of return on an investment will always be the price paid – pay too much leaves little room for error, whereas buying well provides that much sought-after margin of safety. We continue to stalk a number of opportunities, but remain in those comfortable sideline seats until a sufficient margin of safety arises.

There was some activity in several of our existing investments. Onthehouse Holdings Limited (OTH) saw further changes at the Board level. By way of background, Sandon Capital partnered with other OTH shareholders Blue Lake Partners and Gannett Capital to nominate three directors to join the OTH Board in late 2014, including Gabriel Radzyminski, SNC's Chairman. We had concerns about OTH's strategic direction and wanted to actively influence a renewal of the board (as the Board sets the strategic direction).

The Board renewal process is now largely complete, with the appointment of three new directors and the retirement of four directors (including Gabriel Radzyminski) in February 2015. We believe the five-member Board has the right mix of skills to effectively guide the company's future. Sandon Capital remains a shareholder in OTH.

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.

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Chesser Resources Limited (CHZ), where SNC was seeking the removal of three directors, was full of surprises with the appointment of three new directors and the resignation of the three SNC was seeking to remove. The new Board then invited Gabriel Radzynski to join the Board. The new “new” Board then considered and announced a revised capital management plan. The revised plan, an equal access buy back, increased the amount of capital available to shareholders from 2.75 cents per share to 3.53 cents per share.

The Company took a position in Toll Holdings Ltd (TOL) following the announcement of the scheme bid by Japan Post. Our interest lay in TOL’s ability to pay further dividends (which would reduce the cash consideration of the scheme) of 18.5 cents fully franked by our estimates. While we congratulate the TOL Board on securing the transaction, we believe the structure we describe above would yield superior results for most Australian investors. So far, our approach has fallen on deaf ears at TOL, so it would seem this is simply another in a long line of corporate transactions with foreign acquirers where boards and their advisers deal with franking as an afterthought or place it in the “too hard” basket (viz IDL, WCB, DJS, OAK). We believe franking should be an integral consideration when negotiating the structure of corporate transactions. We expect to exit the position profitably.

In February we also saw signs that a long-running saga would soon come to an end, when CIC Ltd (CNB) announced an intention to buy-back minority shares at 82.7 cents per share, inclusive of a 33.7 cents per share dividend. The Fund paid 60.5 cents per share at the time Peet Ltd were offering 60 cents per share in their takeover offer for CNB in April 2013. Our thesis was that Peet should have been paying a large fully franked dividend as part of the consideration; our estimates at the time were that they could have paid approximately 28 cents per share fully franked. Peet held fast to their initial position, which was not to vary the terms. The offer closed with Peet owning 86% of CNB, falling short of the 90% compulsory acquisition threshold. We held discussions with Peet management several times, as did other shareholders, and from our perspective, time was on our side. In effect, Peet had paid for nearly all of CNB, controlled the board and management, but were unable to access CNB’s balance sheet without full control. Our patience has been rewarded with a proposal that had all the ingredients we were seeking initially, with the added bonus of a substantially higher cash price.

## 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

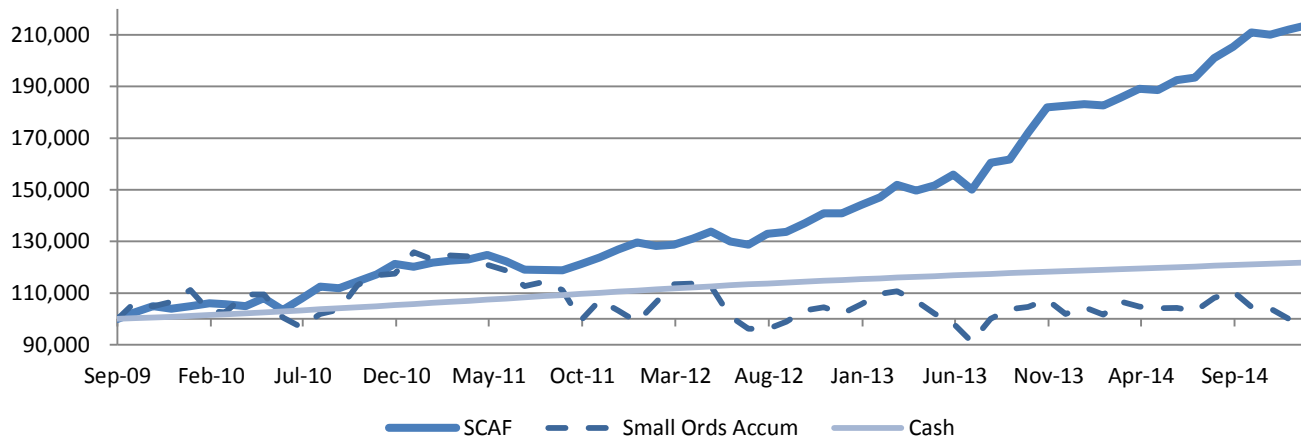
Structure	Wholesale unit trust	Minimum Investment	\$250,000 (or as agreed with trustee)
Trustee	Fundhost Ltd	Trustee Fees	0.21%
Custodian	National Australia Bank	Management Fees	1.33%
Fund Auditor	EY	Performance Fees	15.375% of returns above cash
Investment Manager	Sandon Capital Pty Ltd	Highwater Mark	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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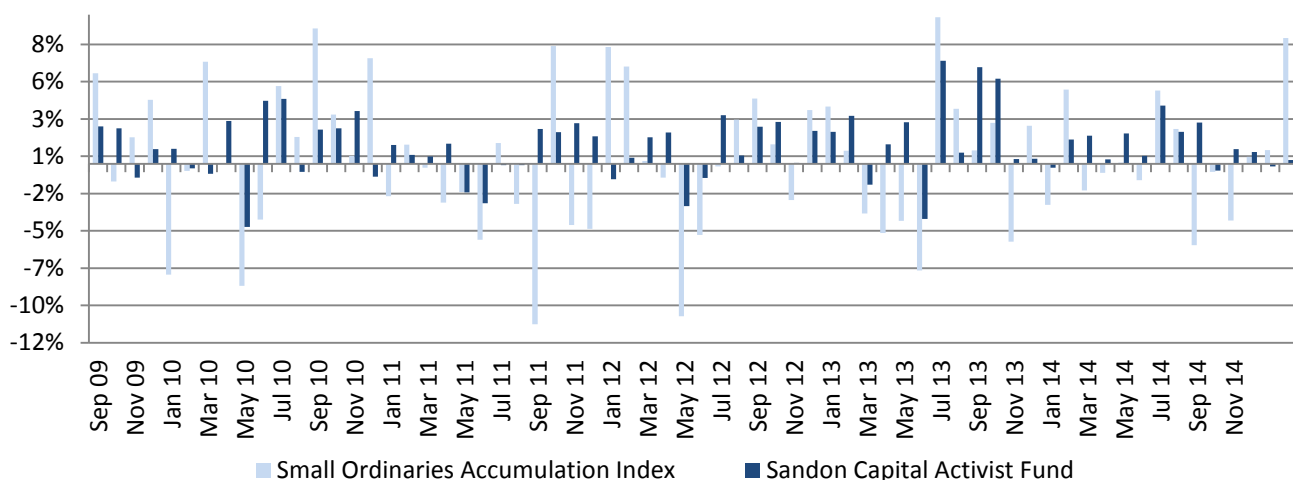
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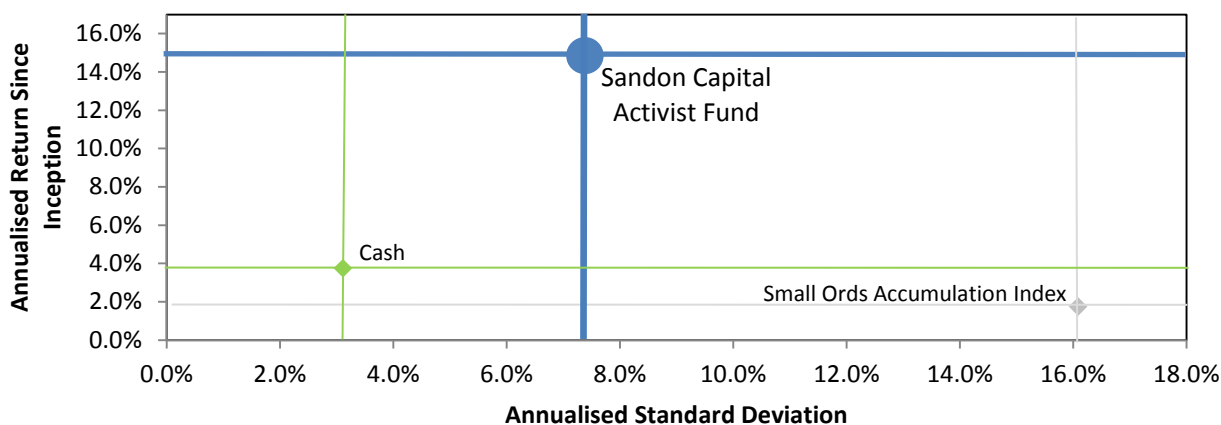
### Growth of \$100,000 invested since inception (assumes reinvestment of distributions)



### Comparison of Monthly Index Returns



### 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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