

SANDON CAPITAL

Sandon Capital Activist Fund

February 2017 Monthly Report

Entry/Exit Prices: \$1.6938/\$1.6803

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	-3.4%	19.4%	10.8%	14.4%	13.2%	7.8%	152.5%
S&P/ASX 200 Accum.	2.3%	22.1%	6.5%	10.6%	8.1%	12.4%	79.1%
Small Ordinaries Accum.	1.3%	16.8%	5.1%	1.8%	2.9%	15.4%	23.9%

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%
2017	4.4%	-3.4%											0.8%

Portfolio Exposures

Net Exposure	81%	Long Positions	34
Net Cash	19%	Short Positions	1

Fund Commentary

The Fund delivered a -3.4% return for February, bringing total returns (net of all fees and expenses) since inception to the equivalent of 13.2% per annum. Cash levels ended the month at approximately 19%.

Armidale Investment Corporation Ltd (AIK) was the largest detractor (~-2.3%), following what we considered to be less than ideal communication surrounding the release of its half year results. We have written these past few months about AIK's move to consolidated financial reporting. The half year numbers begin to provide baseline comparators for future reporting periods. We had anticipated complicated accounts, but a delay of a week for a presentation that contained some clarification of the accounting arcana did not help the market's reaction, which was to sell the shares down. We think this was borne more of frustration than a problem with the results. When the presentation was released a week later, a key piece of good news was that new lease originations were on track for meeting the \$40m target for FY17. This situation highlights how critical informative communications are to investor perceptions of a company, no matter how good a growth opportunity might be. If a story is not effectively communicated, much of the market will lose interest and move on. We remain confident of AIK's growth strategy, and management's ability to execute although stakeholder communications require improvement.

Iluka Resources Ltd (ILU) was the other significant detractor (~-0.8%). The company announced a well-flagged loss in its half year report. We are unconcerned about this. Towards the end of the month, trade journals highlighted that Rio Tinto was looking to increase zircon prices in the June quarter by approximately 6%-7%, while domestic Chinese

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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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producers have also announced 7%-8% price increases for March. We believe these price increases have been largely overlooked by the equity markets. The price increases affirm our belief that the fundamental outlook for ILU's key mineral sands markets remains very positive. Assuming an appropriate value is ascribed to ILU's MAC iron ore royalty, investors today are paying very little for the mineral sand business. Despite the company's continued reluctance to spin out the iron ore royalty, we continue our campaign.

In February, we continued to push for better terms in the Warrnambool Cheese & Butter Factory Holdings Ltd (WCB) saga, releasing a public presentation outlining our valuation for WCB and highlighting what we considered the shortcomings of the arguments put forward by WCB and Saputo. You can read this presentation and the correspondence with the WCB independent board committee on the "Campaigns" page of our website. Late in the month, Saputo increased its offer from \$8.85 to \$9.05 per share. Although we believed this increased offer still undervalued WCB, and failed to distribute any franking credits, the acceptance by 10.2% shareholder Lion Dairy, meant Saputo would be able to move to compulsory acquisition. Although we do not like selling an investment below its fair value, the investment delivered a satisfactory 12.6% p.a. gross return, with what we consider was modest risk.

Macmahon Holdings Ltd (MAH) successfully fended off a low-ball offer from its largest shareholder CIMIC, when it announced a non-binding heads of agreement with Indonesian company AMNT, involving the acquisition of a mining contract and equipment in return for the issue of shares to AMNT at 20.3 cents per share, a 40% premium to CIMIC's offer price. While full details of this proposal will emerge with a notice of meeting, our preliminary view is this is far more attractive than the CIMC proposal. CIMIC did not raise their offer price and their offer closed. The Fund increased its holding in MAH at 14.75 cents per share shortly before the CIMIC offer closed.

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

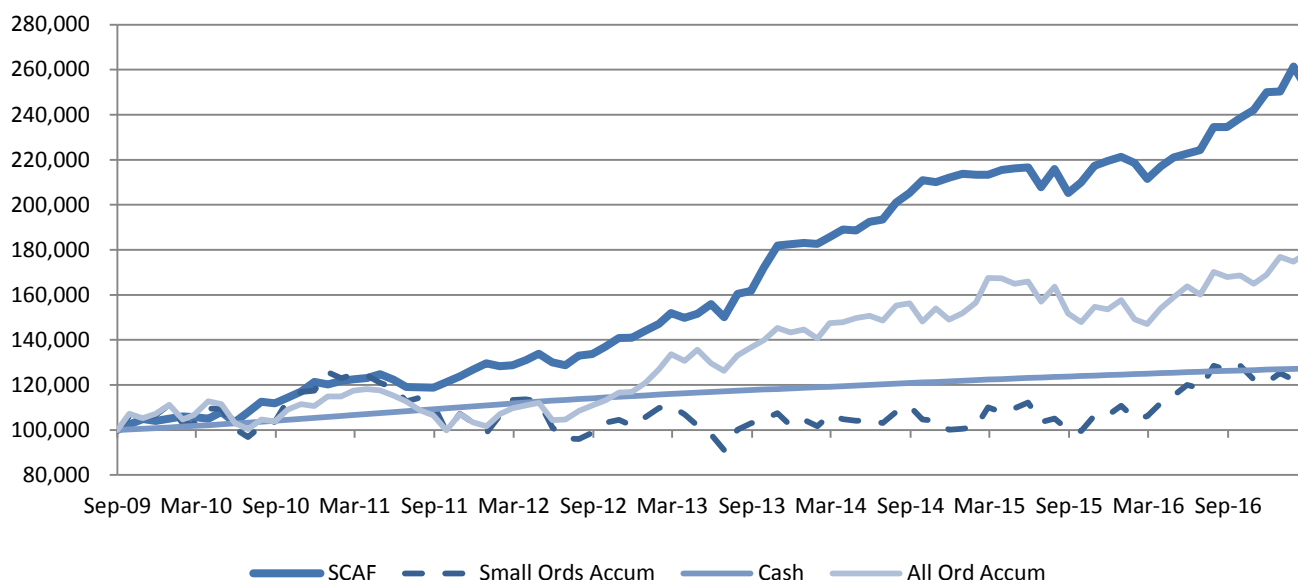
Structure	Wholesale unit trust	Minimum Investment	\$250,000 (or as agreed with trustee)
Trustee	Fundhost Ltd	Trustee Fees	0.21%
Custodian	National Australia Bank	Management Fees	1.33%
Fund Auditor	EY	Performance Fees	15.375% of returns above cash
Investment Manager	Sandon Capital Pty Ltd	Highwater Mark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

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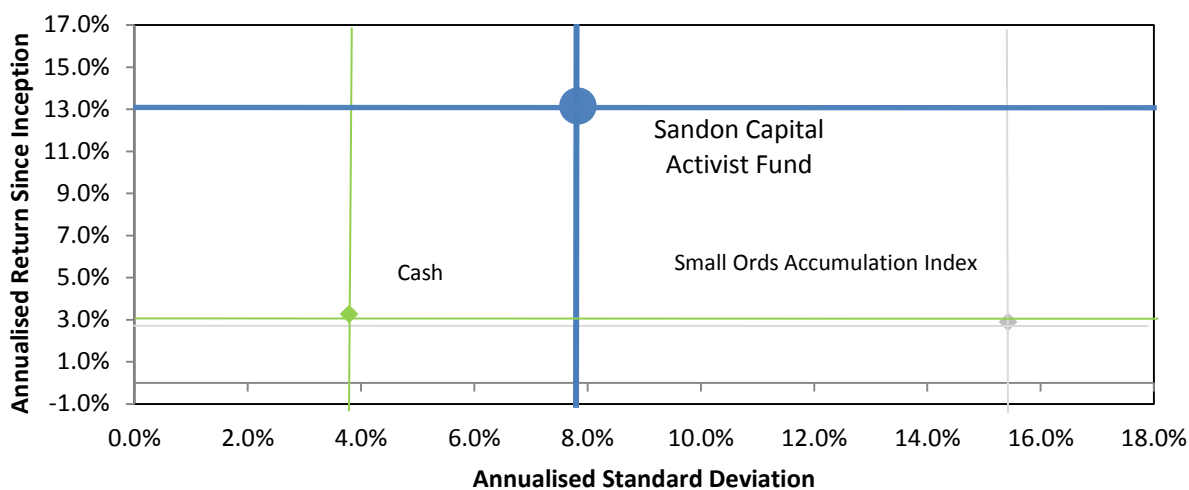
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Growth of \$100,000 invested since inception (assumes reinvestment of distributions)



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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