

SANDON CAPITAL

Sandon Capital Activist Fund

February 2018 Monthly Report

Entry/Exit Prices: \$1.6134/\$1.6005

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	-3.6%	2.3%	6.6%	11.2%	11.8%	7.8%	158.3%
S&P/ASX 200 Accum.	0.4%	10.1%	5.1%	8.0%	8.3%	11.8%	97.2%
Small Ordinaries Accum.	0.0%	20.8%	10.8%	6.2%	4.9%	14.8%	49.7%

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%

Portfolio Exposures

Net Exposure	84%	Long Positions	30
Net Cash	16%	Short Positions	1

Fund Commentary

The Fund return for February was -3.6%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 11.8% per annum. Cash levels ended the month at approximately 16%.

The main detractors to performance were Fleetwood Corporation Ltd (FWD) (-1.7%) and Consolidated Operations Group Ltd (COG) (-1.3%).

FWD shares fell nearly 15% during February. Headline profit figures overall were disappointing, particularly in the struggling recreational vehicles (RV) business. Breakeven has, once again, been pushed out: this time to July 2019. Last year management were bullish on a recovery. Inventories were built up yet the most recent results reported an industry-wide decline in demand for caravans and discounting by competitors. Neither of these factors is comforting, nor do they inspire confidence in management. A decision to sell the business appears to have been deferred, something that we find frustrating. The manufactured accommodation (MA) business reported an increase in revenues but a decline in margins. Management explained the margin decline was the result of a skew to more, traditionally lower margin, mining accommodation units being sold and some inventory build-up in school units. We are unconcerned by this decline, as it is anticipated to be temporary. We remain excited by the prospects for the MA business, more so if additional capital from the sale of other businesses can be deployed at MA's 16.1% return on capital employed. We are considering whether our posture viz-a-viz FWD requires modification.

COG reported what we considered a good result. Earnings before interest, tax, depreciation and amortisation (EBITDA) were up 29% on the prior period. There was a 52% increase in lease origination over the prior comparable period. FY18 lease origination is forecast to increase 29%. The company also published EBITDA forecasts for FY18 and FY19 of growth between 23% and 50% (FY18) and 32% and 42% (FY19). While the growth forecast is impressive, what we find even more significant is that the company has the confidence to make the forecast. The presentation itself was far better than any earlier ones released by COG. It seems their communications are improving.

Despite the solid result, COG's share price fell further following the result. Following discussions with management, we believe there is now an appreciation that results alone will not suffice and that marketing of the company's story is essential.

Post month end, the company announced an on-market buy-back that will allow it to buy up to 10% of issued capital over 12 months. We are pleased to see this, as this provides the company with an important tool to further manage its capital,

especially if shares can be bought below what directors consider the company is worth. This should prove accretive to shareholders who don't sell.

Watpac Ltd (WTP) was the main positive contributor for the month (0.7%) following the announcement that the company had entered into a scheme implementation agreement with biggest shareholder BESIX for a 1-for-2 proportional takeover at \$0.92 per share. WTP reported NTA of \$0.974 per share as at 31 December 2017. We're curious to know how shareholders will respond to this proposal. Prior to the announcement WTP shares were trading at \$0.67.

Stock markets seem to have shrugged off earlier volatility as anomalous. We remain cautious.

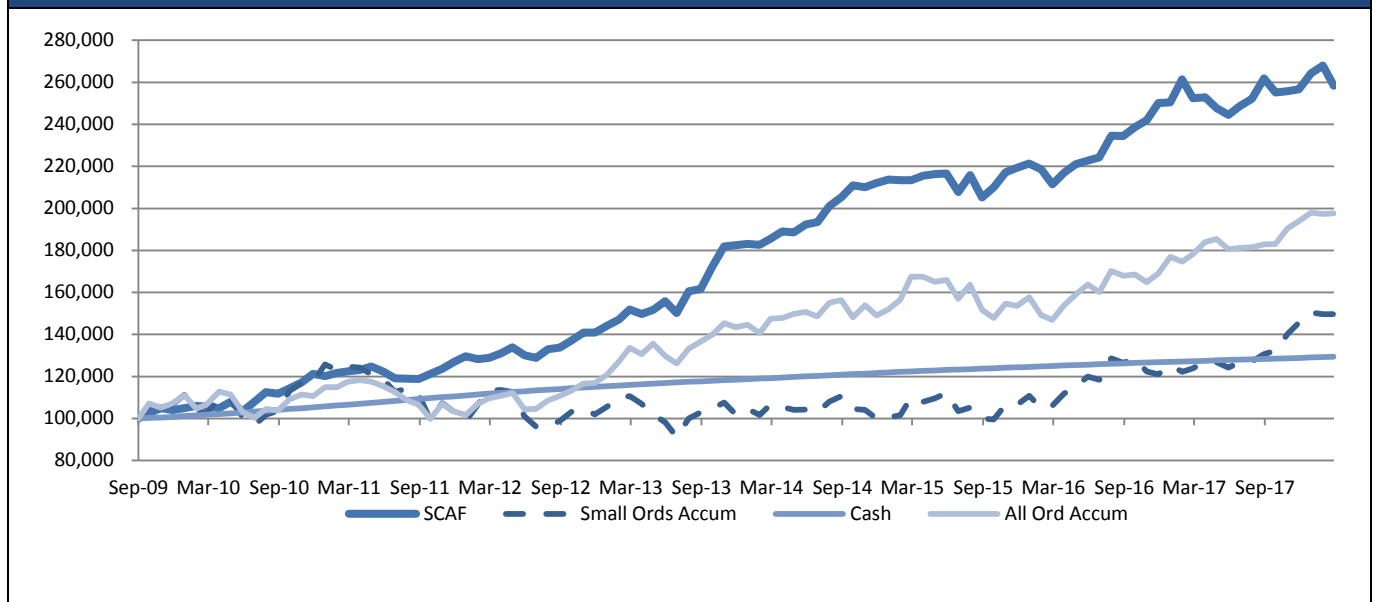
Fund Description

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)

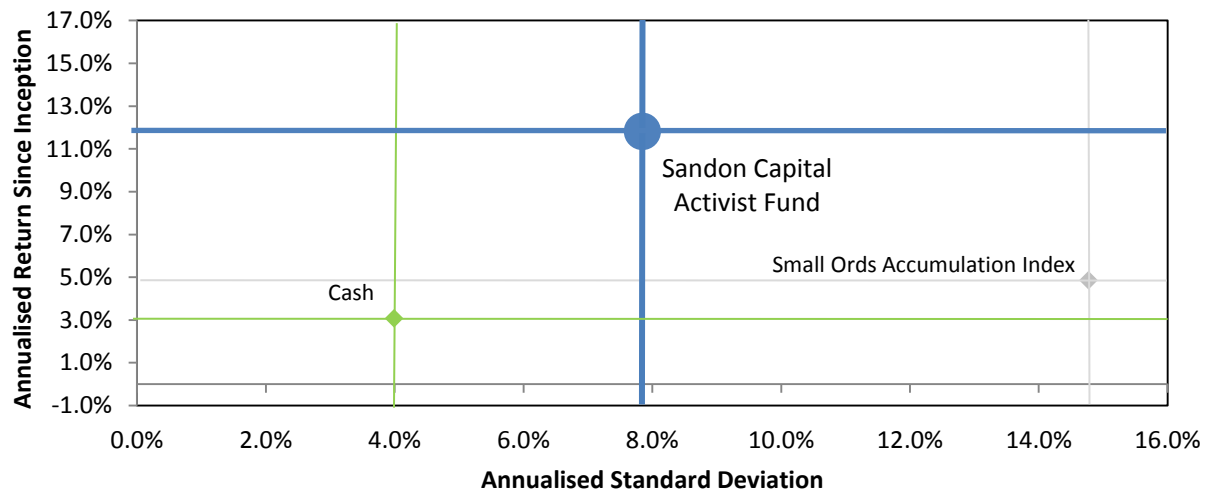


Fundhost Limited (ABN 69 092 517 087) (AFSL 233045) ("Fundhost") as trustee of, and issuer of units in, the Sandon Capital Activist Fund ("Fund"). Sandon Capital Pty Limited (ABN 98 130 853 691) (AFSL 331 663) ("Sandon Capital") is the Investment Manager of the Fund.

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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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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