

SANDON CAPITAL

Sandon Capital Activist Fund

January 2017 Monthly Report

Entry/Exit Prices: \$1.7542/\$1.7403

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	4.4%	19.6%	12.7%	15.3%	13.8%	7.7%	161.3%
S&P/ASX 200 Accum.	-0.8%	17.3%	7.4%	10.6%	7.8%	12.5%	75.1%
Small Ordinaries Accum.	-2.4%	16.4%	6.4%	2.8%	2.7%	15.5%	22.3%

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%
2017	4.4%												4.4%

Portfolio Exposures

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

Fund Commentary

The Fund delivered a 4.4% return for January, bringing total returns (net of all fees and expenses) since inception to the equivalent of 13.8% per annum. Cash levels ended the month at approximately 16%.

Armidale Investment Corporation Ltd (AIK) was the largest positive contributor (~2.5%) as its share price continued to see-saw around the 18 cents per share level of the past few months. Given we are unaware of any change in circumstances, we repeat last month's commentary on AIK: "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."

Other share price moves were widely positive throughout the portfolio, with more than three quarters of the portfolio delivering positive returns. BlueScope Steel Ltd (BSL) contributed 0.7% to the month's result. We've taken profits from BSL during the second half of 2016 and into 2017, reducing the position from 12% of the portfolio to approximately 3.5% at the end of the month.

Our investment thesis for Warrnambool Cheese & Butter Factory Holdings Ltd (WCB) began coming to fruition in late January when controlling shareholder Saputo Inc. launched a takeover offer for the 11.9% of WCB it does not own. First, a quick recap of the background and our investment thesis: WCB first piqued our interest in 2009 when it faced some difficulties following a cut to prices paid to farmers for milk. In late 2009, an indicative takeover proposal, rumoured to

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be at \$4.50, was rejected by the WCB Board. We thought the Board would come under pressure if the share price did not increase beyond \$4.50 after a reasonable amount of time. The Fund first began buying WCB shares in late 2010 at \$3.34 per share.

Fast forward to 2013 when a heated three-way takeover battle began, during which we campaigned for a significant proportion of any winning bid's consideration to be in the form a fully franked dividends. Lion (part of the Kirin Group and owner of a number of diary product brands) swooped in from left field to buy 9.9% of WCB at \$9.25 per share. As a result, Saputo's winning bid fell short of obtaining 90% of WCB and the consideration paid was \$9.40. Had Saputo obtained 90%, it would have paid \$9.60 per share. The Fund sold its shares at \$9.40. However, WCB remained listed as company. We considered that an opportunity as it we thought it inevitable that Saputo would have to buy out minorities at some point if it were to enjoy the fruits of full ownership. The ability to pay fully franked dividends remained an attraction. Funds managed by Sandon Capital began accumulating WCB shares becoming the third largest shareholder.

Fast forward once more to January and Saputo lobbed an \$8.85 offer for WCB, recommended by the WCB Board. We are disappointed in both the price and the structure, since the current offer includes no special dividends. The jury is out.

Macmahon Holdings Ltd (MAH) was also the recipient of a takeover offer from CIMIC Group Ltd (CIMIC) for the 77% of MAH it does not own. The offer, at 14.5 cents per share, represents a 32% premium to the share price prior to the announcement but also an approximate 15% discount to MAH's net assets. Here too, the jury is out.

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

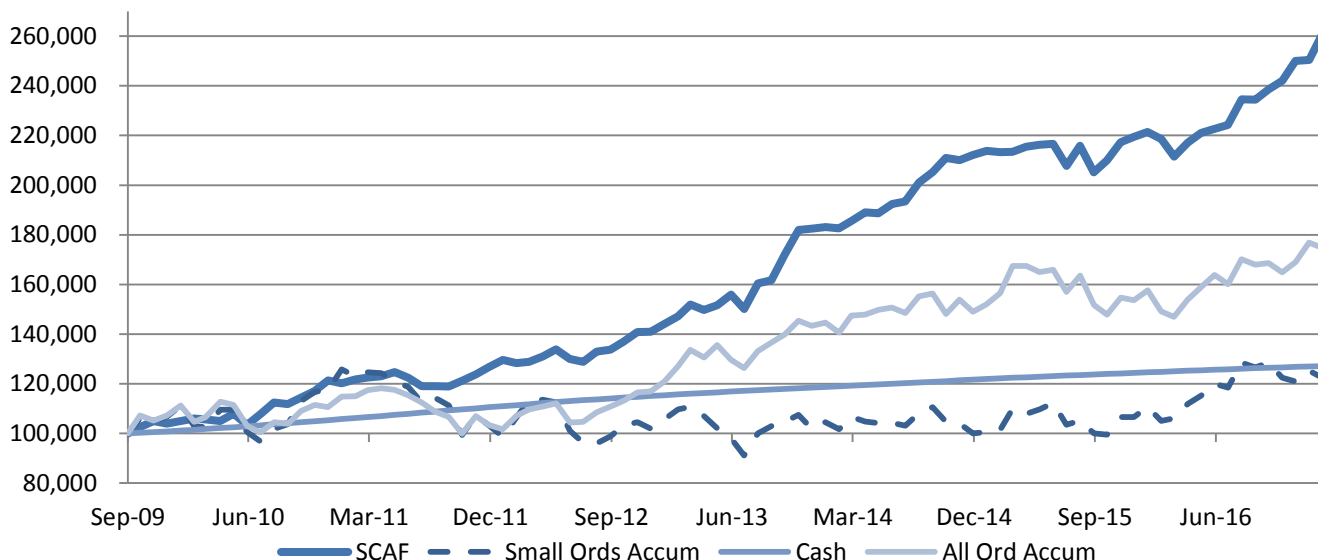
Structure	Wholesale unit trust	Minimum Investment	\$250,000 (or as agreed with trustee)
Trustee	Fundhost Ltd	Trustee Fees	0.21%
Custodian	National Australia Bank	Management Fees	1.33%
Fund Auditor	EY	Performance Fees	15.375% of returns above cash
Investment Manager	Sandon Capital Pty Ltd	Highwater Mark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

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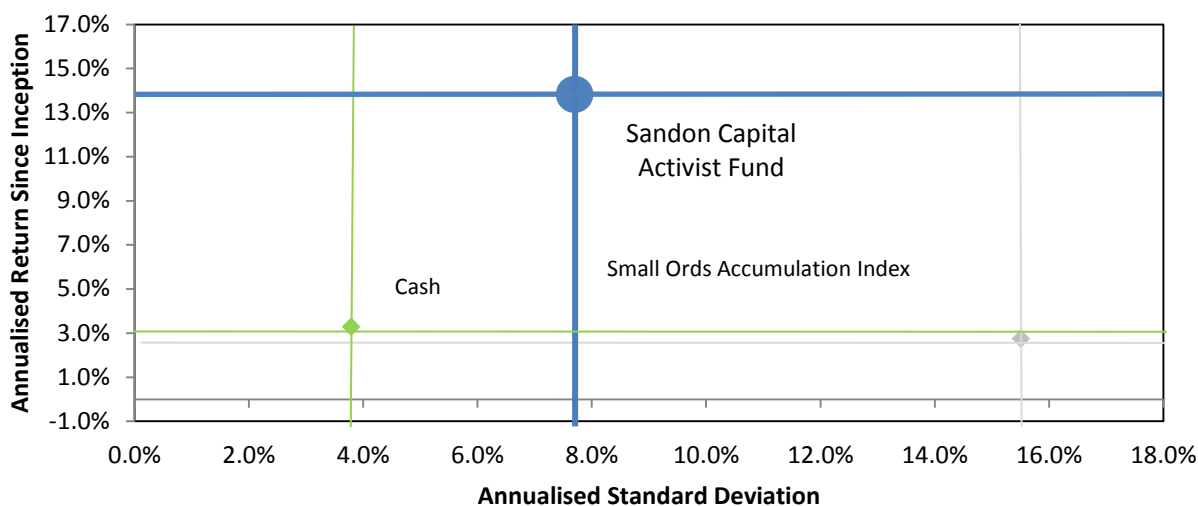
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Growth of \$100,000 invested since inception (assumes reinvestment of distributions)



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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