

# SANDON CAPITAL

## Sandon Capital Activist Fund

January 2018 Monthly Report

Entry/Exit Prices: \$1.6736/\$1.6603

### 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                    | 1.4%    | 2.5%   | 7.9%         | 12.7%        | 12.4%                           | 7.7%                                       | 168.0%                            |
| S&P/ASX 200 Accum.      | -0.4%   | 12.2%  | 7.3%         | 9.1%         | 8.4%                            | 11.9%                                      | 96.5%                             |
| Small Ordinaries Accum. | -0.5%   | 22.4%  | 13.8%        | 6.4%         | 4.9%                            | 14.8%                                      | 49.6%                             |

### 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%  |       |       |       |       |       |       |       |       |       |      |       | 1.4%  |

### Portfolio Exposures

|              |     |                 |    |
|--------------|-----|-----------------|----|
| Net Exposure | 83% | Long Positions  | 29 |
| Net Cash     | 17% | Short Positions | 1  |

### Fund Commentary

The Fund delivered a 1.4% return for January, bringing total returns (net of all fees and expenses) since inception to the equivalent of 12.4% per annum. Cash levels ended the month at approximately 17%.

The main contributor (~0.8%) to this month's return was Mineral Deposits Ltd (MDL), whose shares continued to rise after an upbeat quarterly report. MDL's market commentary was consistent with that of other producers and also with what we have been reading in trade journals. Demand for zircon remains strong and supply is very tight with a number of zircon producers guiding to lower production in 2018 despite strongly rising prices. It is clear that the underinvestment through the last downturn is now coming home to roost and we expect robust zircon prices into the future. The outlook for titanium dioxide feedstocks also remains strong with downstream pigment customers reporting solid demand and strengthening margins, which will be buoyed by pigment price increases announced in early 2018. This is a good environment for feedstock producers to also raise their prices, with Iluka announcing an 8% increase for rutile for 1H18. Despite the political risks of operating in Sierra Leone, the acquisition of Sierra Rutile at the bottom of the cycle looks prescient.

Fleetwood Corporation Ltd (FWD), whose shares rose more than 3% during the month, announced on 1 Feb 2018 the completion of the sale of its Flexiglass business. We see this as merely a long needed first step in a rationalisation of the FWD portfolio of businesses. We keenly await the announcement of the results of the RV business review being conducted. Further rationalisation of the FWD portfolio would allow the company to play to its strengths, becoming a focused manufactured accommodation provider.

Consolidated Operations Group Ltd (COG) made a flurry of announcements during the month. These did not pique the market's interest (since the shares remained flat for the month). COG's opportunity remains significant, though we believe a more effective communication strategy is required to convince the market of the opportunity and COG's ability to deliver.

As we write this report, investors around the world have been reminded that investment markets do not only go up. We will not attempt to decipher the reasons for the volatility, but do observe that much of the market's returns throughout 2017 were, in our minds, unsustainable. We have sat out much of 2017 in largely unfashionable companies operating in sectors unloved by mainstream investors. Pockets of value remain, but such investments require patience both when broader markets are strong and weak. Our approach to investing tends to do better when there is weakness and volatility. If recent volatile conditions continue, we will be excited about the opportunities that will present themselves.

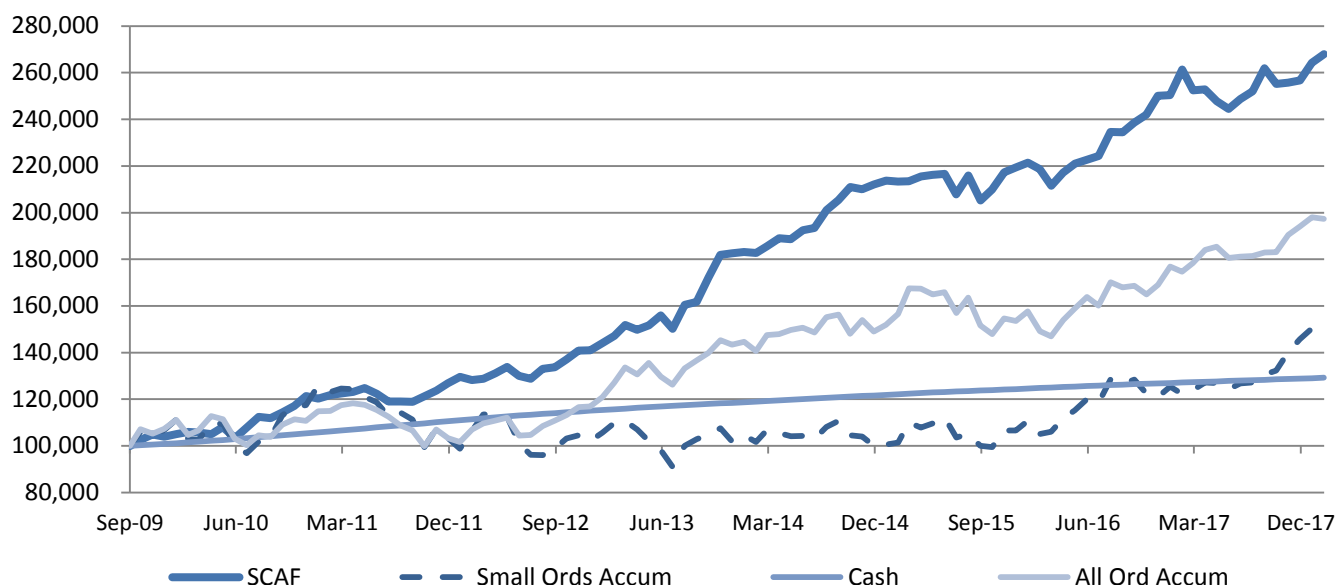
## Fund Description

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.

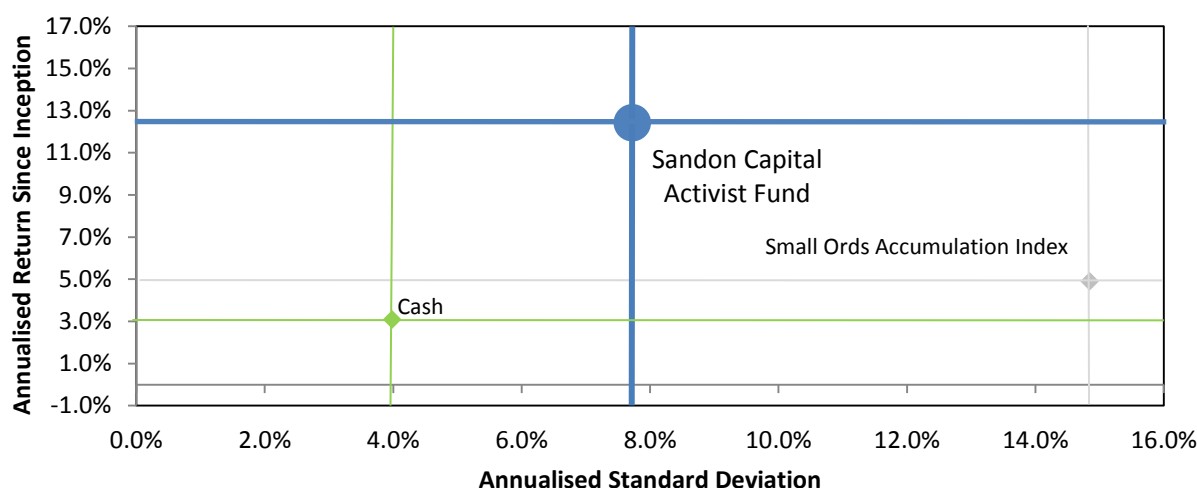
## Fund Details

|                    |                          |                          |                                       |
|--------------------|--------------------------|--------------------------|---------------------------------------|
| 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.

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.

Information provided by the Investment Manager are views of the Investment Manager only and can be subject to change. While information in this report is given in good faith and is believed to be accurate, Fundhost and Sandon Capital give no warranty as to the reliability or accuracy of the information, nor accept any responsibility for any errors or omissions of third parties. To the extent permitted by law, neither Fundhost nor Sandon Capital, including their employees, consultants, advisors, officers or authorised representatives are liable for any loss or damage arising as a result of reliance placed on the contents of this report.