

SANDON CAPITAL

Sandon Capital Activist Fund

January 2019 Monthly Report

Entry/Exit Prices: \$1.6755/\$1.6621

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	0.2%	0.1%	7.1%	8.0%	11.0%	8.0%	168.3%
S&P/ASX 200 Accum.	3.9%	1.4%	10.1%	7.1%	7.6%	11.7%	99.2%
Small Ordinaries Accum.	5.6%	-3.1%	11.3%	7.4%	4.0%	14.7%	45.0%

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%	-0.2%	1.6%	3.1%	2.1%	3.0%	2.6%	-4.6%	-1.8%	-4.0%	1.3%
2019	0.2%												0.2%

Portfolio Exposures

Net Exposure	87%	Long Positions	37
Net Cash	13%	Short Positions	1

Fund Commentary

The Fund return for January 2019 was 0.2%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 11.0% per annum. Cash levels ended the month at approximately 13%.

The main contributor to this month's results was Spicers Ltd (~1.3%) following the announcement of a proposal to sell itself to Japanese paper company Kokusai Pulp & Paper Co. Ltd (KPP). The scheme, which would see KPP acquire all the shares of Spicers, is expected to deliver an estimated 7.0 cents per share to shareholders.

If approved, the Scheme will bring to a close an investment we began when the Fund accumulated a holding in Paperlinx Preference Shares (PXUPA) at an average price of \$13.12 per preference share beginning in late 2015. By 2017, a decade after they were first listed (at \$100), PXUPA were restructured by a conversion into ordinary shares, thus waking Paperlinx (by now known as Spicers) from its pref-induced coma. The conversion equated to an ordinary share price of approximately 2.6 cents per share. Even after the restructure, Spicers was largely overlooked by the market and traded at a substantial discount to its net assets until almost immediately prior to the KPP announcement (our kind of investment!).

A new board nominated by shareholders, ably-led by Mr Jonathan Trollip, and the management team led by Mr David Martin, have done an exceptional job leading the company to this opportunity. We commend each and every one of the Board and management team for their efforts. We intend to vote in favour of the scheme proposal.

Consolidated Operations Group Ltd (COG) was the largest detractor for the month (~1.0%). The Fund's second largest position continues to be a source of frustration. The strategy, consolidating the SME finance broker industry, is a significant opportunity for value creation. Based on its latest announcements, COG estimated it accounts for some 14% of the net asset finance settled by brokers in Australia, making it the largest non-bank finance broker aggregation platform. This is valuable, but not reflected in COG's share price. The leasing business is fast growing and also valuable. Depending on how one approaches the valuation of COG, there remains a significant discrepancy between its value and market price. It is also worth noting that SME finance broker lending was not caught up in the recent Royal Commission.

Historically, COG had a complex structure, but it has become simpler and we expect the simplification to continue. This should facilitate a better understanding of value, but not without a concerted effort by management to educate the equity market. This has been our main criticism of the company for several years. Our frustration peaked after the end of the month following press reports that COG might have received unsolicited approaches from private equity investors. The COG situation will take its course, but we think some general observations are useful.

A problem when investing in companies undervalued by the market is that sometimes other investors, who are in the business of seeking full control, may also discover those undervalued nuggets. In those instances, such investors may be able and prepared to bid for the whole company.

Typically, battles for corporate control involve the payment of a premium for that control (though not always). What can be very challenging is a takeover proposal made at a premium to the share price, yet at a discount to the true worth of the company. The challenge for directors considering a proposal is whether that proposal is fair relative to value or attractive relative to share price. Adding shareholders with differing views of value and time horizons, and the scene may be set for a value shift.

Given our investment approach, we have faced such risks a number of times before. Sometimes, we've been able to fight to achieve a higher price. Yet at other times, most recently with the takeover of Watpac Ltd by BESIX, the actions of other shareholders have consigned us to having to accept a bid we consider undervalues a company.

As of today, there is no proposal for COG, and there may never be. While we consider the shares remain significantly undervalued, the transaction risk we describe above remains live. We are also conscious that there are other companies in our portfolio that we consider undervalued that face the same risk.

We have continued to take the opportunity of volatile markets to selectively add to some existing positions. As noted last month, we are also evaluating a number of new opportunities, some of which may make it into the portfolio. On both counts, we remain patient.

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.

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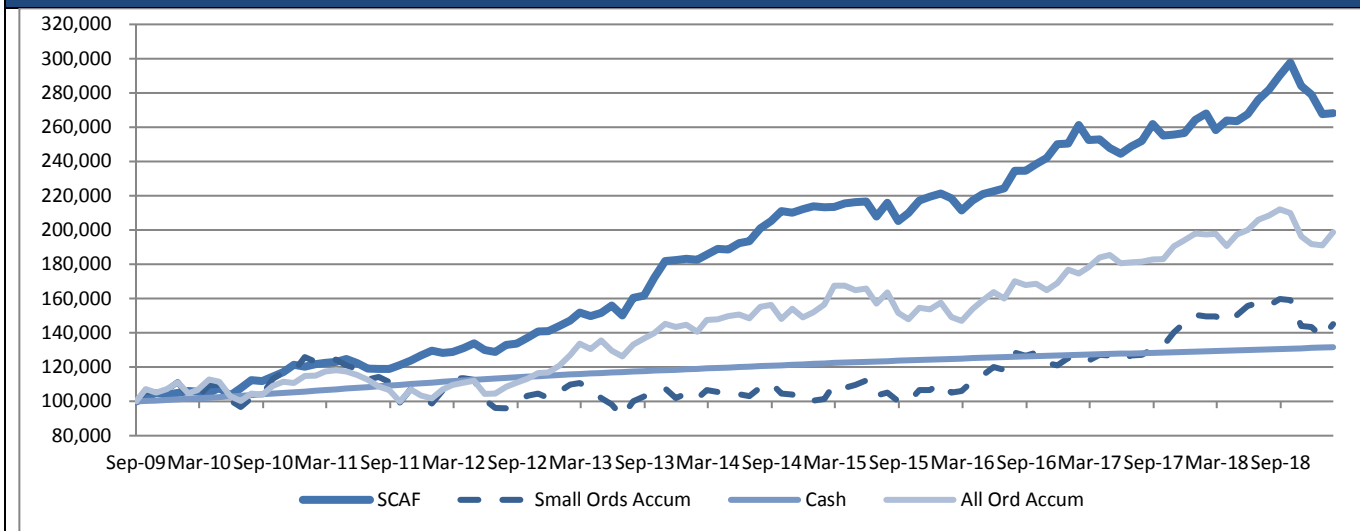
Fund Description

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.

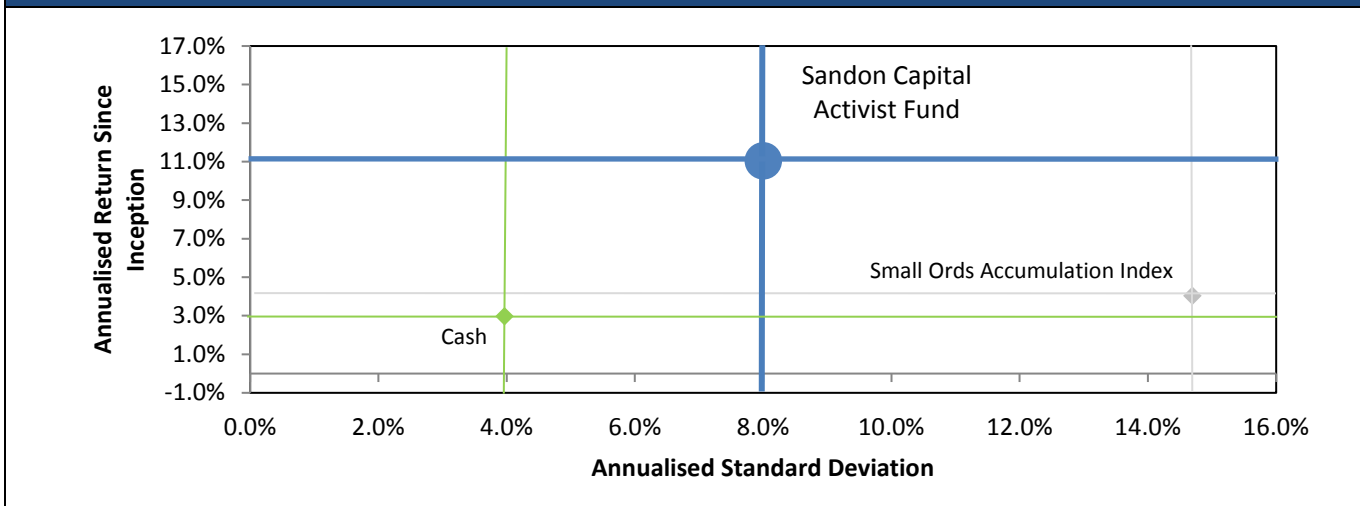
Fund Details

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.

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