

# SANDON CAPITAL

## Sandon Capital Activist Fund

July 2016 Monthly Report

Entry/Exit Prices: \$1.5739/\$1.5613

### 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	4.6%	8.7%	13.5%	14.5%	13.1%	7.8%	134.6%
S&P/ASX 200 Accum.	6.3%	2.4%	8.0%	9.6%	7.9%	12.7%	69.7%
Small Ordinaries Accum.	8.6%	22.3%	8.7%	2.4%	3.7%	15.8%	28.6%

### 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%						6.0%

### Portfolio Exposures

Net Exposure	90%	Long Positions	34
Net Cash	10%	Short Positions	1

### Fund Commentary

The Fund delivered a return of 4.6% in July, bringing total returns (net of all fees and expenses) since inception to the equivalent of 13.1% per annum. Next month, we celebrate the 7<sup>th</sup> anniversary of the inception of the fund, and the returns in the tables above demonstrate material long term outperformance against both large and small cap indices. We have continued to handily outperform the large cap index over the last twelve months, however the small cap index has been far stronger. The returns of that index have predominantly been driven by a handful of stocks whose share prices have risen spectacularly as some investors are prepared to pay almost anything for growth, real or perceived. We believe investors buying some of those companies at these prices will likely face permanent losses of capital in the near future or at best will experience far lower returns than expected. Needless to say, we've not been invested in these companies, as they do not meet our activist value investing criteria. We've had periods before where the market has raced ahead of our slow-and-steady approach yet we remain faithful to our tried and trusted methodology. Some of you may have read comments in the press by one of the world's most successful investors, Howard Marks of Oaktree Capital, who speaks of sticking with the 'creed' – well, we are professed and committed to our particular activist value creed.

The main contributor (~2.3%) to this month's return was BlueScope Steel Ltd (BSL), whose shares rose 33% following a 26% upgrade to second half FY16 EBIT guidance, less than two months after the previous increase in guidance. The BSL share price has now more than doubled since we first purchased shares in early 2015.

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.

Importantly, this performance has been driven by significant fundamental improvements in the performance of the company and a very deft strategic move to acquire full ownership of the US-based Northstar asset. We commend the Board and Management.

Another strong contributor (~0.9%) to the month's result was Fleetwood Corporation Ltd (FWD), whose shares rose 11% during the month. We made mention in the last monthly report that we had released a presentation in June detailing our investment thesis for FWD. We are eagerly awaiting the release of FWD's full year results for a further update on how the company intends to turn around its underperforming businesses, of which there are several. We expect the full year result to be released towards the end of August.

Onthehouse Holdings Ltd (OTH) also made a positive contribution to the month's result (~0.9%) following the announcement of the Scheme of Arrangement at 85 cents per share. As noted in last month's report, we have increased our position in OTH and will consider our position in respect of the scheme proposal closer to the time of the meeting.

The main detractor for the month was Warrnambool Cheese & Butter Factory Holdings Ltd (WCB) (~-0.9%), whose shares fell following the completion of the entitlement offer (that we had objected to by way of a Takeovers Panel application). We exercised all the Funds entitlements and applied for some shortfall shares. We believe that in time – possibly, quite some time – Saputo will move to take 100% ownership of WCB.

Changes in the prices of the Fund's other holdings were immaterial to overall performance.

Cash levels ended the month at approximately 10%.

## 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

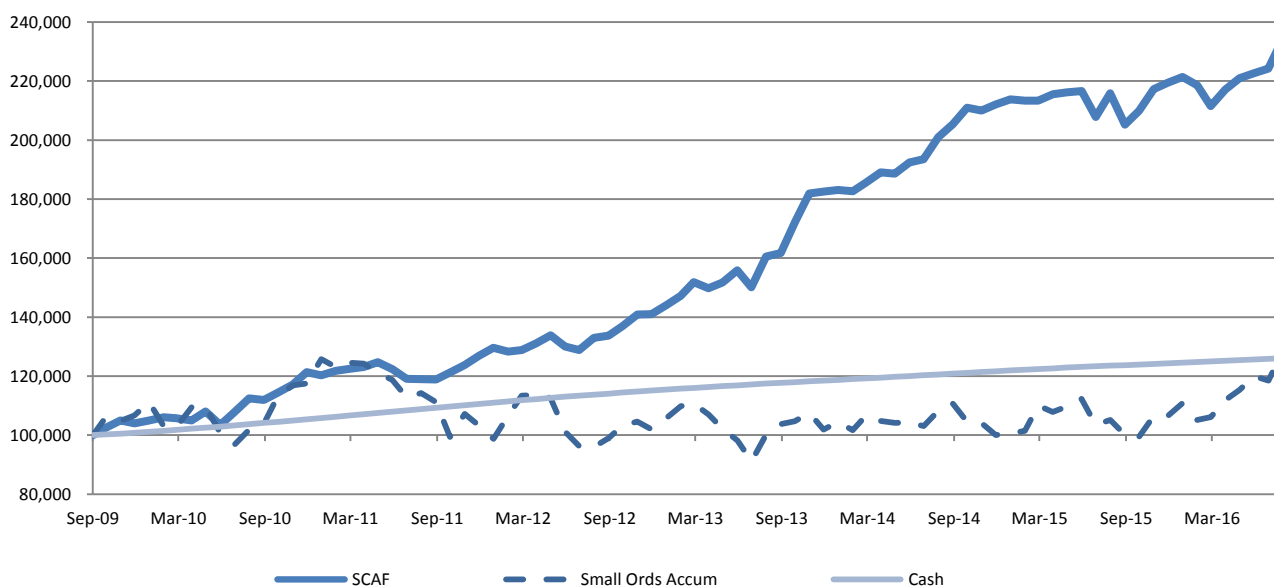
Structure	Wholesale unit trust	Minimum Investment	\$250,000 (or as agreed with trustee)
Trustee	Fundhost Ltd	Trustee Fees	0.21%
Custodian	National Australia Bank	Management Fees	1.33%
Fund Auditor	EY	Performance Fees	15.375% of returns above cash
Investment Manager	Sandon Capital Pty Ltd	Highwater Mark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

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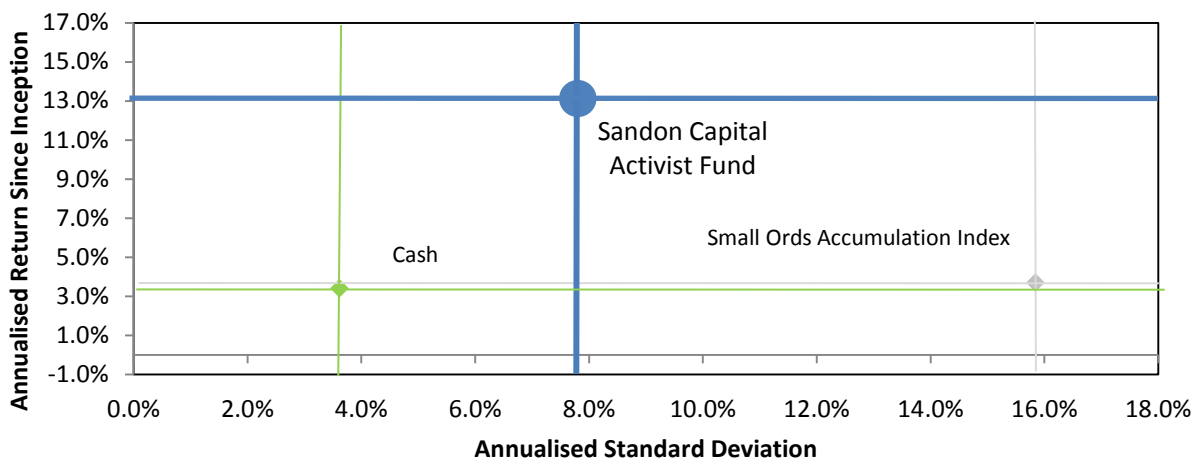
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### Growth of \$100,000 invested since inception (assumes reinvestment of distributions)



### 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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