

SANDON CAPITAL

Sandon Capital Activist Fund

July 2019 Monthly Report

Entry/Exit Prices: \$1.6229/\$1.6100

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%	2.7%	7.3%	7.6%	11.3%	8.0%	189.5%
S&P/ASX 200 Accum.	2.9%	13.3%	11.7%	8.6%	9.1%	11.6%	136.3%
Small Ordinaries Accum.	4.5%	7.6%	9.3%	9.2%	5.4%	14.6%	67.7%

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%	-0.2%	1.6%	3.1%	2.1%	3.0%	2.6%	-4.6%	-1.8%	-4.0%	1.3%
2019	0.2%	3.3%	1.0%	3.2%	2.7%	-2.3%	-0.2%						8.2%

Portfolio Exposures

Net Exposure	89%	Long Positions	27
Net Cash	11%	Short Positions	2

Fund Commentary

The Fund return for July 2019 was -0.2%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 11.3% per annum. Cash levels ended the month at approximately 11%.

Iluka Resources Ltd (ILU) was the main detractor (~-1.2%) to performance for the month. BCI Minerals Ltd (BCI) was the main contributor (~0.9%).

The portfolio continued its recent run of underperformance relative to the market indices. Back in July 2007, Chuck Prince, then CEO of Citigroup, a large US bank, talked about his bank's appetite for funding leveraged loans. He told a reporter "as long as the music is playing, you've got to get up and dance." Although the music playing today is different, it seems many equity investors hear the music and are up on their feet, many gyrating euphorically. That euphoria seems particularly focused on companies that seem to be able to deliver high growth, especially sought after in a low growth, low interest rate world. We are not so enthusiastic. Carrying on with Prince's metaphor, we are standing with a hand on the back of a chair, perhaps tapping a foot, rather than up dancing. This is a better place to be when the music inevitably stops.

While frustrated at the underperformance, we remain steadfastly committed to our investment approach. We believe that in time, the prices investors are prepared to pay for growth (real or perceived) will face a reality check. We don't know when this reality check will come, or in what form. Based on prices being paid today for growth, we believe investors may well face significant capital losses. At best, they may experience many years of little or no returns.

Despite these comments, we continue to find investment opportunities. The investments we are making typically have lower growth and are, therefore, underappreciated by the market. Their generally solid balance sheets and often reliable cashflows make for more attractive expected returns. We believe that fishing in this pond and using our activist techniques will prove to be more lucrative over time than investing in securities that are currently priced for perfection.

We discussed our investment in Highlands Pacific (HIG) in our April newsletter. During July, the closing spot price of nickel exceeded \$13,220 per tonne for 5 consecutive trading days. As a result, the contingent payment of an additional 1c/share was received in July (on top of the 10.5c/share takeover consideration previously received in May). This was the cherry on top of an investment that had already generated a very attractive, low risk return.

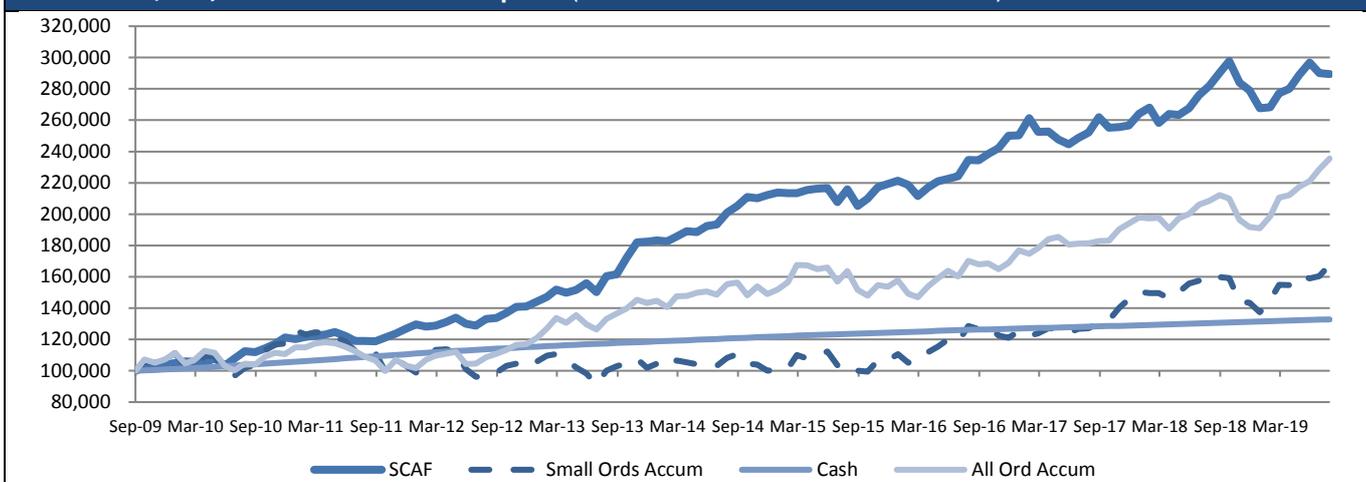
Fund Description

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.

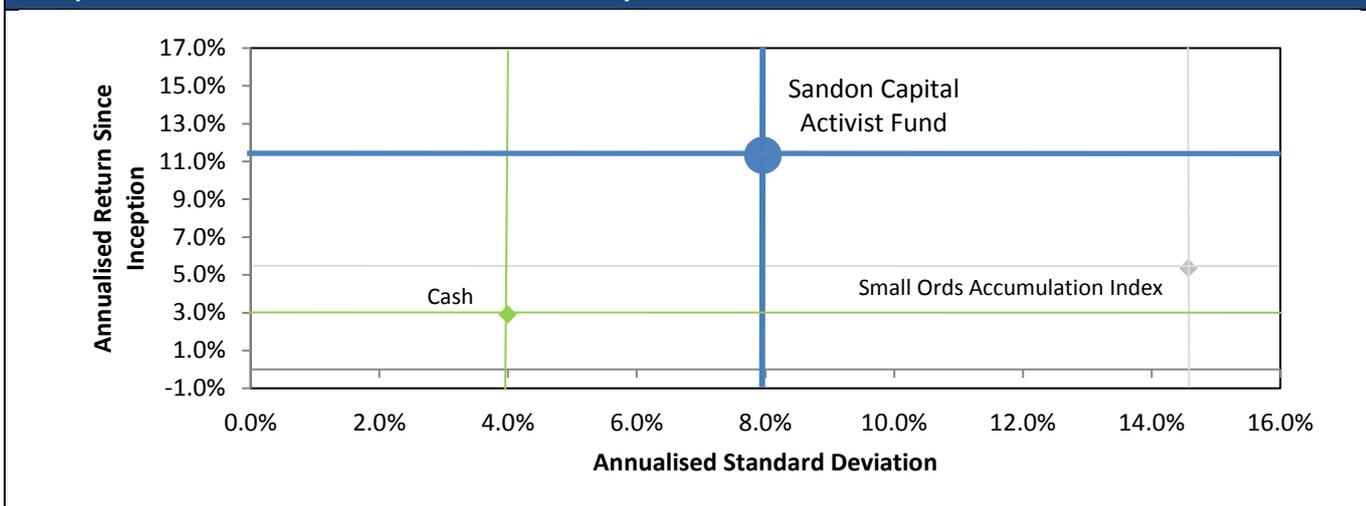
Fund Details

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 July 2019. In particular, it is important that you understand the risks associated with an investment in the Fund set out on page 5 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.