

# SANDON CAPITAL

## Sandon Capital Activist Fund

June 2016 Monthly Report

Entry/Exit Prices: \$1.5708/\$1.5583

### 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	0.7%	7.9%	14.3%	13.5%	12.6%	7.7%	124.3%
S&P/ASX 200 Accum.	-2.5%	0.6%	7.7%	7.4%	7.1%	12.6%	59.6%
Small Ordinaries Accum.	-1.3%	14.4%	9.1%	1.0%	2.5%	15.6%	18.4%

### 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%							1.3%

### Portfolio Exposures

Net Exposure	87%	Long Positions	33
Net Cash	13%	Short Positions	0

### Fund Commentary

The Fund delivered a return of 0.7% in June, bringing total returns (net of all fees and expenses) since inception to the equivalent of 12.6% per annum. The main contributor (~1.8%) to this month's return was Armidale Investment Corporation Ltd (AIK). AIK is the largest holding in the Fund, and one of the longest held. Last month we wrote about three near term catalysts we thought might positively affect the share price. These were: (i) exceeding the lease origination forecast, (ii) a reduction in the discount rate applied to the valuation of the leasing business and (iii) a move away from the LIC structure. In late June, AIK announced an increase in the valuation of the leasing business arising from a reduction in the discount rate (21% to 19%) and post 30 June the company also announced that it had exceeded the forecast lease origination by almost 8%, which represented a 48.5% increase from the prior year. It also moved to full ownership of the underlying loan note, which we see as a pivotal step in moving away from the LIC structure. We remain confident that AIK's true worth will be increasingly recognised by the wider share market, including its potential to deliver growth in an otherwise low-growth environment. The broker aggregation strategy has various successful comparators, and if AIK management are able to deliver, AIK shareholders will be well rewarded.

On 27 June 2016, Sandon Capital made a Takeovers Panel application in respect of the 3 for 8 entitlement offer for new shares at \$6.75 made by Warrnambool Cheese & Butter Factory Holdings Ltd (WCB). The application sought orders to prevent the entitlement offer from proceeding. In summary, our concern was that WCB's major shareholder Saputo, Inc.

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.

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might have been able proceed to compulsory acquisition of minority shareholders if no other WCB shareholders exercised their entitlements. Most shareholders, including funds managed by Sandon Capital, exercised their entitlements, and Saputo did not go above the 90% threshold. On 1 July, the Takeovers Panel announced that it had declined to conduct proceedings, noting the strong take up of entitlements.

During the month, we also released a presentation detailing our investment thesis for Fleetwood Corporation Ltd (FWD). It is available on our website or by clicking on this link ([click here](#)). FWD announced a retirement living manufactured accommodation contract with National Lifestyle, a retirement living provider. FWD shares contributed 0.8% to the month's result.

Onthehouse Holdings Ltd (OTH) was a detractor to the month's performance (-0.7%), as the mooted takeover continued unresolved at months' end. This uncertainty was laid to rest a week later, when a Scheme of Arrangement at 85 cents per share was announced. We are not as pleased as one might expect with this proposal, as in the 6 months since the proposal first came to light, there has been, in our view, a significant improvement in the value of OTH following the sale of the loss-making consumer online division. We will consider our position in respect of the scheme proposal closer to the time of the meeting. In the meantime, we have increased Sandon Capital's holding in OTH.

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

Cash levels ended the month at approximately 13%.

## 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

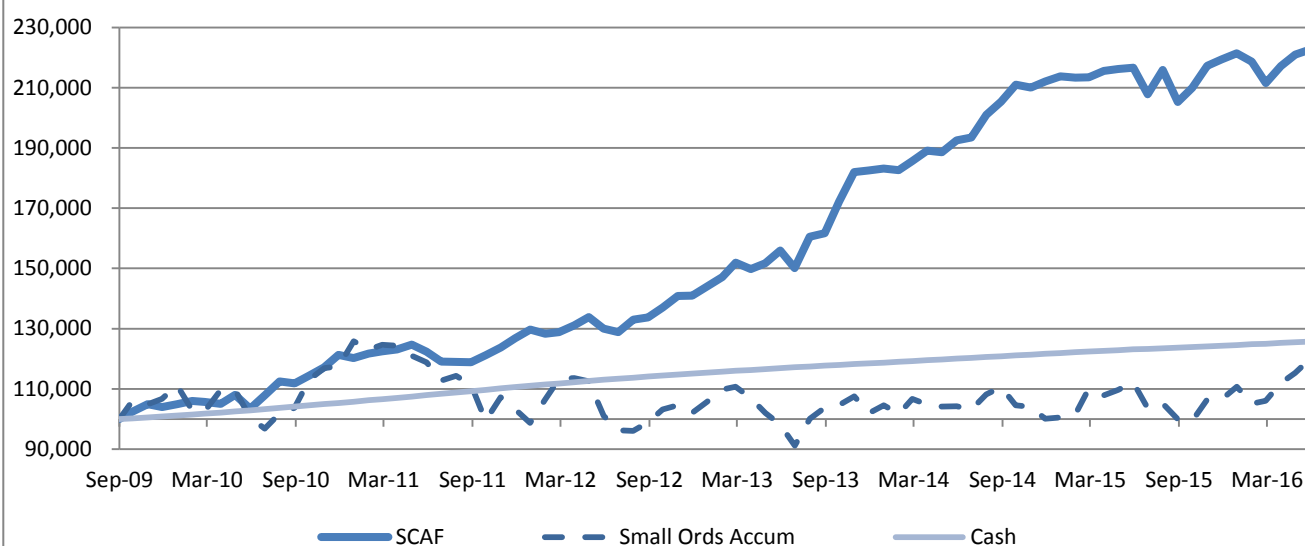
Structure	Wholesale unit trust	Minimum Investment	\$250,000 (or as agreed with trustee)
Trustee	Fundhost Ltd	Trustee Fees	0.21%
Custodian	National Australia Bank	Management Fees	1.33%
Fund Auditor	EY	Performance Fees	15.375% of returns above cash
Investment Manager	Sandon Capital Pty Ltd	Highwater Mark	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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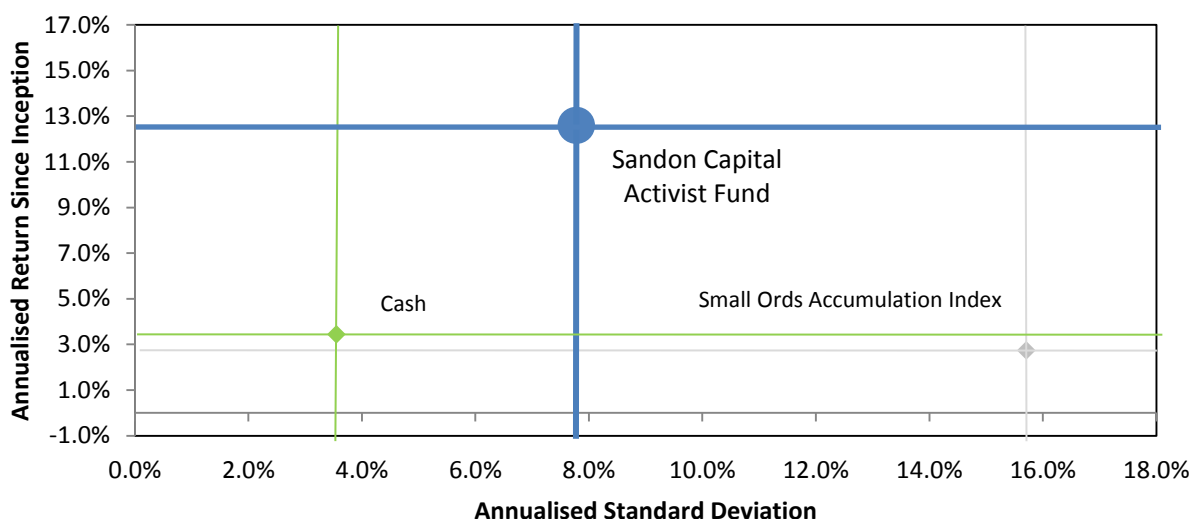
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### Growth of \$100,000 invested since inception (assumes reinvestment of distributions)



### 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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