

SANDON CAPITAL

Sandon Capital Activist Fund

June 2018 Monthly Report

Entry/Exit Prices (cum distribution): \$1.7240/\$1.7103

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	3.1%	11.0%	9.9%	13.0%	12.2%	7.8%	176.0%
S&P/ASX 200 Accum.	3.3%	13.0%	9.0%	10.0%	8.1%	11.8%	105.8%
Small Ordinaries Accum.	1.1%	24.2%	15.0%	11.6%	5.2%	14.6%	57.5%

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%							4.5%

Portfolio Exposures

Net Exposure	87%	Long Positions	30
Net Cash	13%	Short Positions	2

Fund Commentary

The Fund return for June was 3.1%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 12.2% per annum. Financial year 2018 return was 11%. Cash levels ended the month at approximately 12%.

The main contributors to performance for the month were Specialty Fashion Group Ltd (SFH) (+1.8%) and Fleetwood Corporation Ltd (FWD) (1.4%). Watpac Ltd (WTP) was the main detractor for the month (-0.8%).

The market continued to re-evaluate SFH during the month, with its shares up more than 40%. SFH is now seen as a growth story driven by its City Chic business, having shed its challenged retailing brands. SFH epitomises the opportunities that exist for investors willing to look and think beyond first impressions. For example, until very recently, SFH was almost always referred to as a "failed" or "struggling" retailer. Such comments were despite SFH's financial position having begun to improve in early 2017. There is no doubt that the then status quo was unsustainable, but financial failure was not, in our opinion, on the cards. We believe the Board of SFH have engineered a good outcome for SFH and its shareholders. We remain excited about the opportunities ahead for the refocused City Chic business.

FWD's share price recovered much of the previous month's share price losses when the sale of the struggling (yes, this time it is an appropriate adjective) RV business was announced. The business was sold for \$1 million, and the ensuing sale of stock and shut down costs will cost FWD shareholders between \$12 million and \$15 million. Although we have been pushing this sale, we believe the board and management acted far too slowly after clear evidence of being incapable of turning the business around. Since we first called for a disposal of the RV business in 2016, by the time the RV sale and shutdown is completed, the cost to FWD shareholders will be close to \$35 million. Keep in mind, by the time we were calling for its sale, the RV division had already been losing money (viz \$8.1 million in FY16). A full accounting of the cost to shareholders of the RV business will not be known until the transaction completes but the running total is, in our view, sufficient evidence to hold management and the board to account.

After month's end, Mineral Deposits Limited's (MDL) hostile French suitor Eramet, declared its offer unconditional. Immediately prior to completing this monthly report, the MDL Board, having regard for Eramet's increased holding in MDL and the likelihood they will obtain control, have recommended shareholders accept the Eramet offer. We will reluctantly follow the Board recommendation. We maintain our view that MDL is worth more than \$2.00 per share, but as enough shareholders have accepted Eramet's Offer, control will pass to them imminently. We congratulate the MDL Board and management team for having done such a great job.

Our initial plans for MDL back in 2016 were thrown out the window after our first meeting with management. In general, resource executives have scant acquaintance with notions of shareholder value, however we were pleasantly surprised to hear MD Rob Sennitt speak our language! Although the share price represented a significant discount to value, there was no need to engage our activist techniques, as management had a clear plan.

The Fund first acquired MDL shares at \$0.26 per share in mid-2016 when there were questions over the high debt levels at MDL's TiZir joint venture. We then encouraged and participated in the 2017 capital raising at \$0.42 per share. The sale will lift the Fund's cash levels by just over 10%, to approximately 23% (all other things remaining equal). The Fund will be well placed to capitalise on any future opportunities.

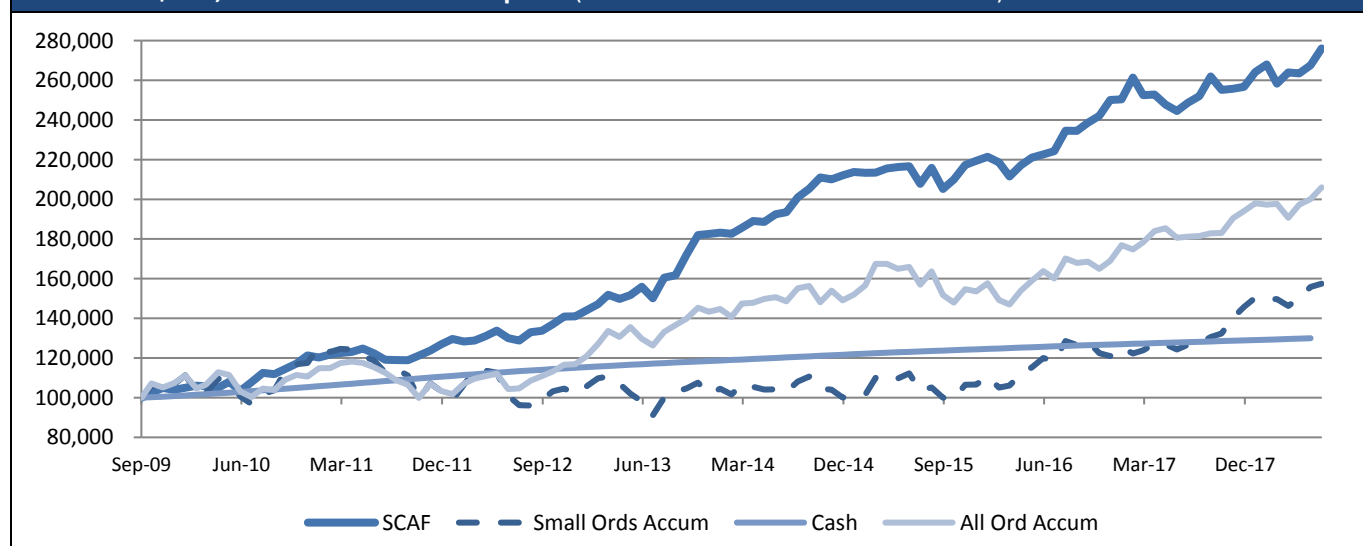
Fund Description

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)

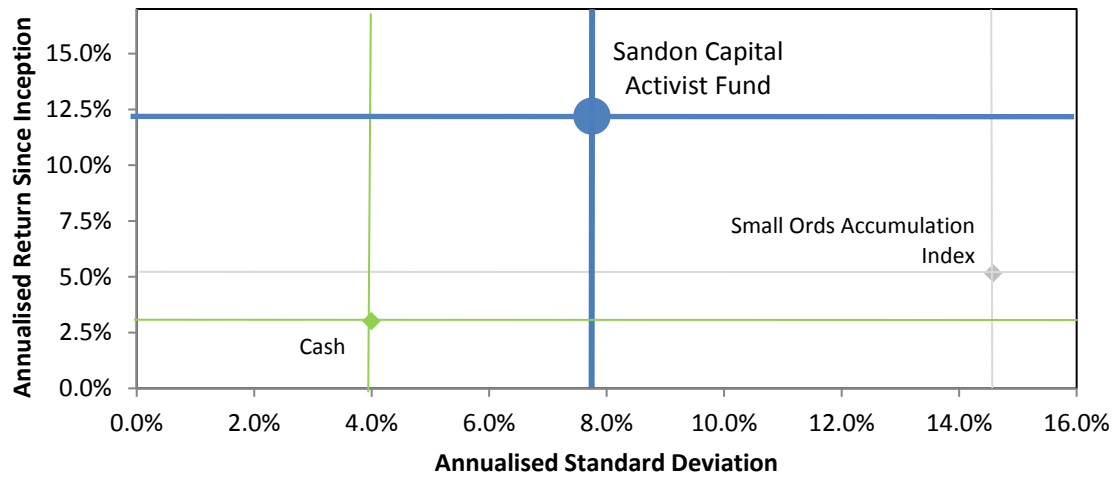


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Fund performance is after fees and assumes distributions are reinvested. Past performance is not a reliable guide to future performance. This information has been prepared without taking into account your investment objectives, financial situation, 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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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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