

SANDON CAPITAL

Sandon Capital Activist Fund

March 2018 Monthly Report

Entry/Exit Prices: \$1.6487/\$1.6356

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	2.2%	4.4%	7.0%	12.0%	12.0%	7.8%	164.0%
S&P/ASX 200 Accum.	-3.8%	2.5%	3.8%	7.7%	7.8%	11.9%	89.7%
Small Ordinaries Accum.	-2.3%	15.0%	10.7%	6.4%	4.5%	14.7%	46.2%

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%										0.0%

Portfolio Exposures

Net Exposure	85%	Long Positions	31
Net Cash	15%	Short Positions	1

Fund Commentary

The Fund return for February was 2.2%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 12.0% per annum. Cash levels ended the month at approximately 15%.

The main contributors to performance were Fleetwood Corporation Ltd (FWD) (+1.3%), Specialty Fashion Group (SFH) (+0.8%) and Consolidated Operations Group Ltd (COG) (+0.7%). There was no specific news on FWD or COG, rather both seemed to have reversed some of the underperformance seen in previous months.

The SFH share price rose 51% for the month as the market continued to speculate that a bid would be made for some or all of the company's assets. Post month end, the company announced that it had received a \$100m cash bid from Anchorage Capital Partners (Anchorage) for the City Chic and Autograph businesses. The proposal was expressed as binding and valid until 6 April 2018. At the time of writing, there was no update from SFH as to the status of negotiations with Anchorage.

During the month, we went public with our views on Watpac Limited (WTP). We began purchasing WTP shares over 12 months ago after concluding they were materially undervalued. Poor operational results over a number of years meant Watpac's shares have traded at a material discount to their reported net tangible asset value per share. We believe major shareholder, BESIX, has taken advantage of this underperformance to launch what we consider is a lowball proportional takeover offer. Despite a number of strategic and operational missteps, we believe the challenges facing Watpac are not insurmountable.

We see Watpac's challenges as follows:

- (i) The mix of Construction with the Civil and Mining businesses is fundamentally flawed. There is little overlap in skills and the capital profiles of the businesses do not match. We consider this a strategic mismatch.
- (ii) Considering this mismatch, and Watpac's record of capital management, we believe Watpac has demonstrated poor and sporadic capital management.

We believe WTP should investigate merging the Civil & Mining business with another mining contractor. A scrip-based deal would allow WTP shareholders to retain exposure to the mining services upcycle. It would also provide the benefit of a more capable and focused management team. Post month end, Watpac announced that it was conducting a review of its Mining business, including exploring sale options for the business and/or its assets, either in part or whole. Our presentation on WTP can be found at www.sandoncapital.com.au/site/images/pdfs/180327_WTP_Presentation.pdf

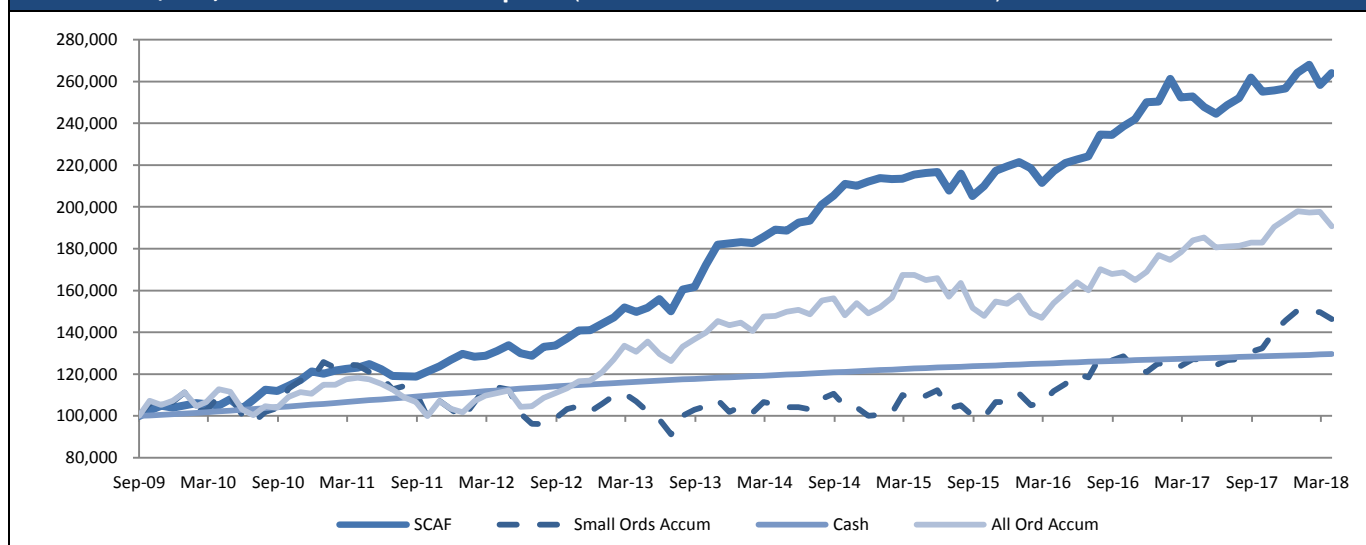
Fund Description

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.

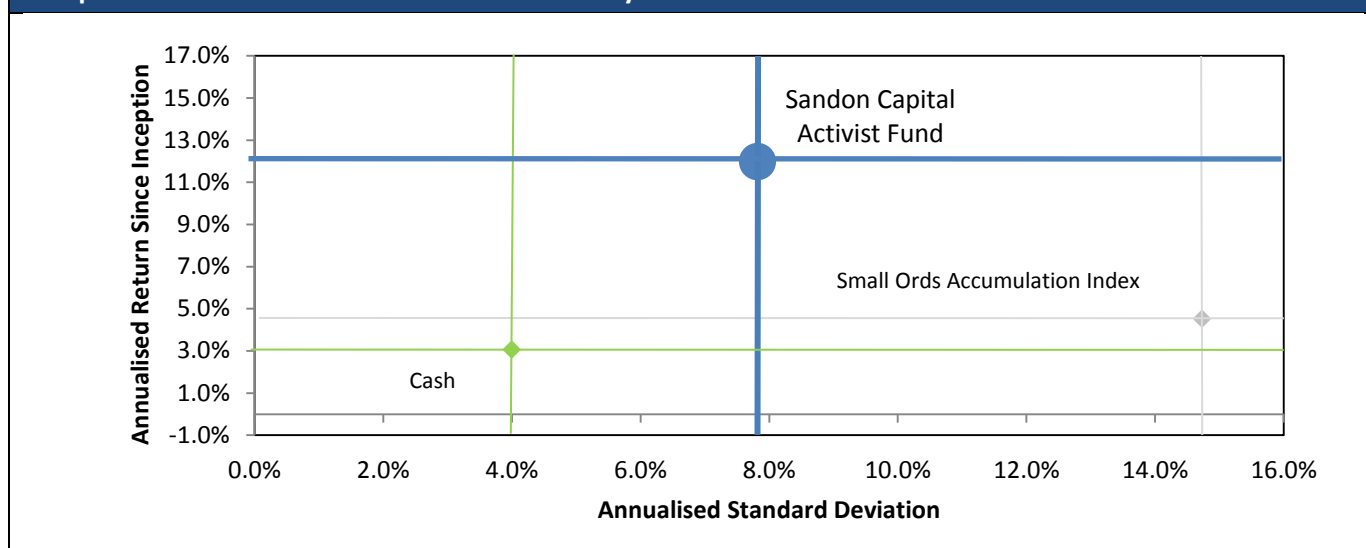
Fund Details

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 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.