

SANDON CAPITAL

Sandon Capital Activist Fund

May 2018 Monthly Report

Entry/Exit Prices: \$1.6714/\$1.6581

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	1.6%	9.4%	7.3%	11.4%	11.9%	7.8%	167.6%
S&P/ASX 200 Accum.	1.1%	9.6%	5.9%	8.8%	8.2%	11.8%	99.3%
Small Ordinaries Accum.	3.7%	25.4%	11.6%	9.7%	5.2%	14.6%	55.8%

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%								1.3%

Portfolio Exposures

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

Fund Commentary

The Fund return for May was 1.6%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 11.9% per annum. Cash levels ended the month at approximately 14%.

The main contributors to performance for the month were Specialty Fashion Group Ltd (SFH) (+2.0%) and Mineral Deposits Ltd (MDL) (+1.5%), partly offset by poor performance from Fleetwood Corporation (FWD) (-1.5%).

In May, SFH announced it would sell its “challenged” businesses to competitor Noni B Ltd (NBL) in an all-cash transaction for \$31m. Once this transaction completes, SFH will be left with its growing and profitable City Chic business. Time will tell whether NBL got the better end of the deal, however we believe this is a good result for SFH as it clears the path to focus on its future rather than continue to carry those loss-making businesses.

In the same announcement, SFH told shareholders that City Chic would deliver \$19-\$20 million of earnings before interest depreciation and amortisation (EBITDA) in FY2018, a range that is significantly higher than we had anticipated. We believe such earnings justify the Board’s decision not to sell City Chic to a private equity firm for \$100 million earlier this year. We eagerly await the release of SFH’s 2018 results.

MDL’s share price continued to climb, well above French company Eramet’s \$1.46 cash bid. Somewhat unusually for a Sandon Capital investment, we are fully supportive of the MDL Board in its resistance of the Eramet offer. Independent expert Grant Samuel opined a value of \$2.04-2.52. Supplementary disclosures by Eramet show apparent frustration that MDL and its shareholders have not simply rolled over at their “generous” offer. Recent news emanating from South Africa regarding Rio Tinto’s Richards Bay Minerals operation reinforces our view that the Tizir JV holds enormous strategic value. On 13 June 2018, Eramet increased its offer to \$1.75 on a “last and final” basis – the gun is well and truly held against the heads of shareholders!

We noted with interest the following comment by Grant Samuel in the MDL independent expert’s report: *The premium implied by the ERAMET Offer is broadly consistent with takeover premiums in the Australian market place. However, premium analysis is not indicative of value* (our emphasis). This is a challenge for many undervalued companies, where a bid materialises at a premium to the market price, but which may well be a discount to its true worth. This reinforces why investors should have a firm grasp of value.

FWD was once again the main detractor for the month. As noted in last month’s letter our patience with FWD has worn

through. The continued poor share price performance suggests we are not the only shareholders dissatisfied. However, rather than sell our shares, we remain committed to change occurring at FWD.

After month end, shareholders in construction company Watpac Ltd (WTP) voted against the BESIX scheme proposal. We actively campaigned against this scheme, which we saw as opportunistic and flawed. We believe the WTP independent directors need to be held to account for recommending such a proposal to shareholders. We've now reverted to our original plan for our investment in WTP, which is to push for changes that lead to operational improvements.

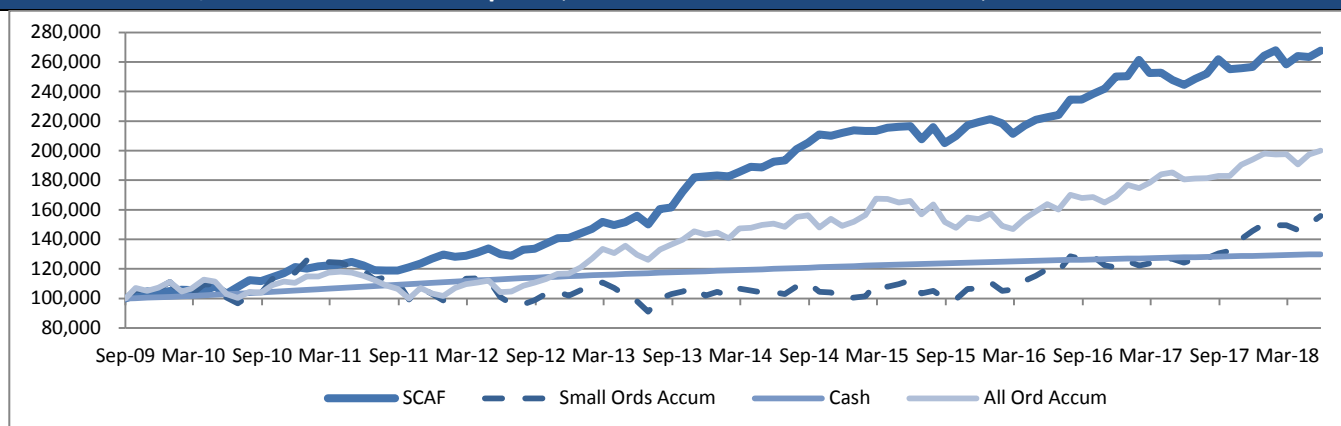
Fund Description

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.

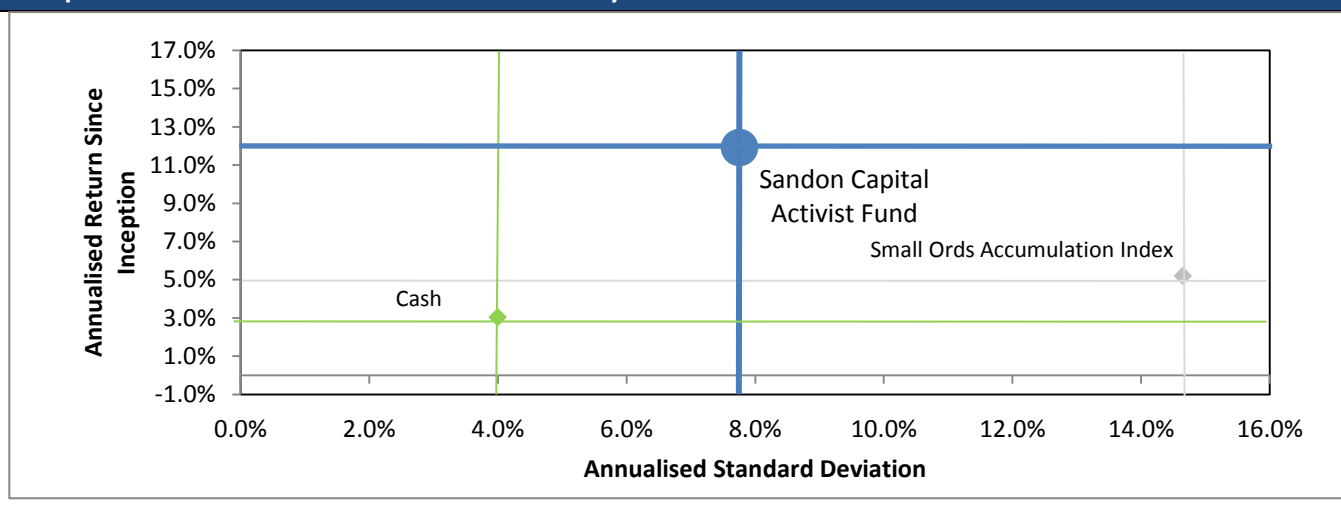
Fund Details

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.