

# SANDON CAPITAL

## Sandon Capital Activist Fund

November 2018 Monthly Report

Entry/Exit Prices: \$1.7422/\$1.7283

### 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	-1.8%	8.7%	8.3%	8.9%	11.7%	7.9%	178.9%
S&P/ASX 200 Accum.	-2.2%	-1.0%	7.7%	5.8%	7.3%	11.8%	92.0%
Small Ordinaries Accum.	-0.4%	-1.6%	10.4%	7.1%	4.0%	14.7%	43.4%

### 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		5.6%

### Portfolio Exposures

Net Exposure	91%	Long Positions	33
Net Cash	9%	Short Positions	2

### Fund Commentary

The Fund return for November was -1.8%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 11.7% per annum. Cash levels ended the month at approximately 9% and have been supplemented as a result of takeover activity within the portfolio (discussed below).

Fleetwood Corporation Ltd (FWD) (~-0.9%) and IDT Australia Ltd (IDT) (-0.4%) were the main detractors for the month.

We attended the FWD AGM in Perth last month. FWD presented FY18 as a transformative year, citing the sale of the two underperforming business, a \$1.80 per share capital raising and the acquisition of two new businesses. The company clearly preferred to focus attention on transformation than the cold hard facts of its poor financial performance. Revenues were practically flat, EBITDA was down 13%, net profit from continuing operations was down 19.5% and the company reported losses from discontinued operations of \$25.7 million. From a shareholder's perspective, FWD shares began FY18 at \$2.28, peaked at \$3.18 and currently trade at \$1.83. The aforementioned \$1.80 capital raising, while somewhat attractive to new shareholders who participated in the placement, was priced at a 43.4% discount to the peak price reached some months earlier.

In the run up to the AGM, Sandon Capital lobbied many shareholders to vote against the remuneration report and other AGM resolutions. Perhaps considering the financial results, it is not surprising that shareholders dealt FWD a first strike on its remuneration report. More than 44% of shares cast voted against FWD's remuneration report, so this was no near miss. Furthermore nearly 44% of votes cast were also against the issue of performance rights to the Managing Director, although being an ordinary resolution meant the vote was carried. This was disappointing. An issue in these situations is often that shareholders new to a company will give incumbent boards and management the benefit of the doubt and support them, despite past performance suggesting they probably should not.

Chairman Phillip Campbell spent time in his chairman's address describing the "many dimensions" of the Board's matrix used to evaluate its composition and asserted that the FWD board has a "good mix...which helps hold management to account." Based on its performance, we disagree, and more and more FWD shareholders have come to a similar conclusion.

We reluctantly sold the Fund's Watpac Ltd (WTP) shares to BESIX after months' end. Post months' end there were press reports about a potential sale of WTP's mining services business, something confirmed by WTP later that day. Since BESIX's earlier proportional takeover offer at 92 cents per share, WTP has made numerous positive announcements pertaining to

its forward order book. This positive stance was reinforced in the full year results commentary. All this has only served to frustrate us. We remain perplexed at how WTP's independent directors could have recommended the BESIX offer at the same price as BESIX's proportional offer six months earlier. The BESIX offer ended with it having acquired 91.9% of WTP. The sale has increased the Fund's cash level by approximately 7%.

Last month, we referred to the association formed by Sandon Capital with Samuel Terry Asset Management (STAM) in respect of the affairs of AIMS Property Securities Fund (APW). A presentation was released that detailed our criticisms of the management of APW.

In a sign that AIMS Fund Management Ltd (AIMS), the responsible entity and manager of APW, was likely to fight hard to preserve the status quo at APW, AIMS convened its own unitholder meeting to consider two resolutions, including its own wind up resolution. The other resolution seeks to have unitholders direct the RE to do certain things, including the commissioning of independent research on APW to attempt to narrow the discount to NTA. This resolution would appear to be at odds with APW's own constitution. As a result we question why the directors of the RE would have gone to such an expense to duplicate a meeting already being held at someone else's cost. The AIMS-convened meeting was held on 7 December and the STAM/Sandon meeting was held on 10 December. As expected, the chair of both meetings allowed AIMS to vote the shares in APW it controls. We objected to this at both meetings and may lead to legal action by Sandon and STAM in 2019. The results of both meetings indicated that the vast majority of unitholders not associated with AIMS were in favour of the wind up. In other words, other than AIMS and its associates only approximately 3% of units voted to keep APW alive.

We have taken the opportunity of falling markets to selectively add to some existing positions, though some of the shares we would have most liked to buy did not fall by much. We remain patient. As already noted in last month's report, if the past provides any indications, such turmoil is likely to provide us with some interesting investment opportunities.

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.

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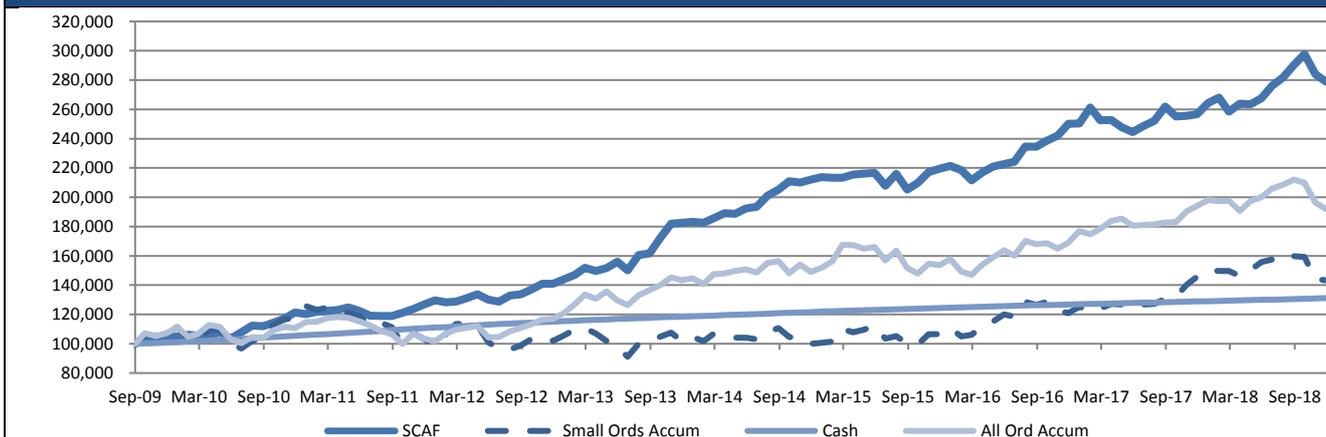
## Fund Description

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.

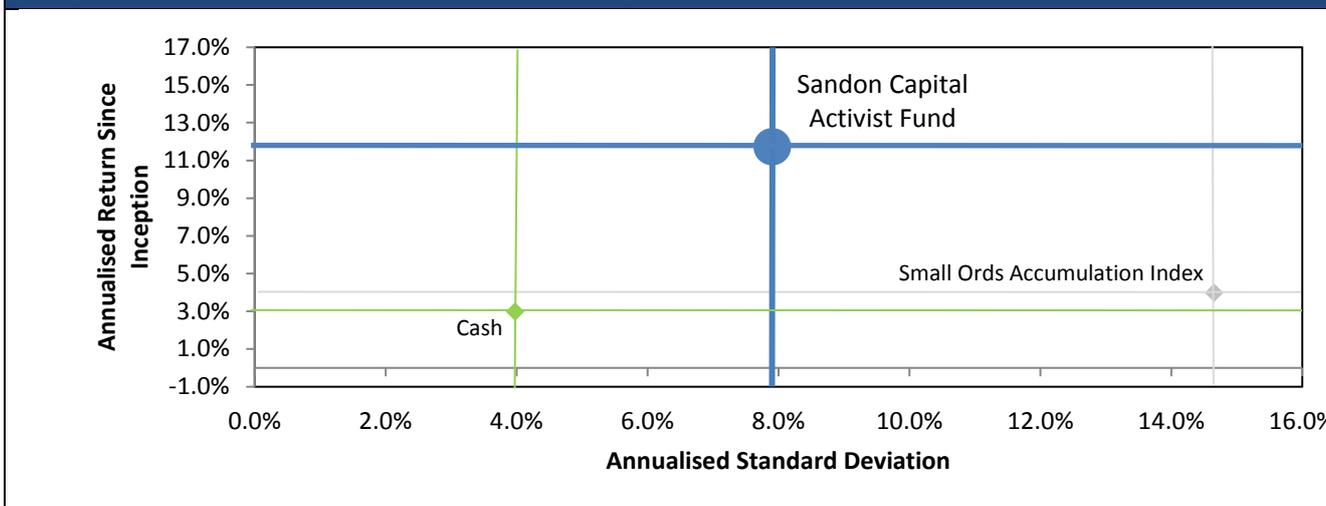
## Fund Details

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.

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