

SANDON CAPITAL

Sandon Capital Activist Fund

September 2016 Monthly Report

Entry/Exit Prices: \$1.6007/\$1.5880

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	1.7%	13.6%	11.5%	14.5%	13.1%	7.7%	138.6%
S&P/ASX 200 Accum.	0.5%	13.2%	6.0%	11.2%	7.6%	12.6%	67.0%
Small Ordinaries Accum.	1.5%	29.2%	7.1%	5.3%	3.6%	15.7%	28.5%

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%	4.6%	0.0%	1.7%				7.8%

Portfolio Exposures

Net Exposure	90%	Long Positions	33
Net Cash	10%	Short Positions	1

Fund Commentary

The Fund delivered a 1.7% return for September, bringing total returns (net of all fees and expenses) since inception to the equivalent of 13.0% per annum. Cash levels ended the month at approximately 10%.

The main positive contribution came from Armidale Investment Corporation Ltd (AIK) whose share price ended the month at 14 cents following the completion of a 1-for-5 rights issue and placement at 11 cents per share. AIK now has to deliver on expectations, something we believe they will achieve. In time, we believe investors will come to better understand the growth potential offered by AIK as it creates a consolidation platform with the asset finance broking space, a \$42 billion market of which it already accounts for \$2 billion in financing.

Fleetwood Corporation Limited (FWD) made a positive contribution to returns in September (~0.6%). We continue to advocate for changes at FWD and have released an update to our analysis that incorporates some key issues that we believe require addressing post the release of the FY2016 annual report and full financial statements. This analysis is available on the Sandon Capital website.

Our investment in Acorn Capital Investment Fund Ltd (ACQ) also delivered a solid return (~0.4%) as its investment performance continued to deliver strong results, though the shares continue to trade at a meaningful discount to NTA (approximately 14%).

Detractors to the month's performance included BlueScope Steel Ltd (~-0.5%) and Coventry Group Ltd (CYG) (~-0.6%). Although CYG has been one of our poorest performing investments, we remain supportive of the strategy being pursued

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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by new Chairman Neil Cathie and MD Peter Caughey. We believe they are laying a solid foundation for CYG's recovery, though it may be some time before the share market is prepared to reward them. We'd encourage readers to take a few minutes to read Mr Cathie's Chairman's report. It is one of the most unvarnished, forthright, and informative (and hence best) Chairman's reports your investment team has read in a long time. Readers will understand what the company is trying to achieve, appreciate the challenges it faces, and be a little wiser about the company. Unfortunately, most companies in CYG's condition would succumb to the temptation to "accentuate the positive" and obfuscate the challenges.

Onthehouse Holdings Ltd (OTH) shareholders have now voted in favour of the scheme proposal at 85 cents per share. Although this represents a substantial gain for the Fund, which began acquiring OTH shares below 50 cents per share, we believe the 85 cents per share undervalued the company. Indeed, we could not bring even ourselves to vote for the proposal, but in recognition of the significant gain we did not go as far as voting against it. We fully expect OTH to re-emerge as a listed company in years to come, perhaps under a different name, but at prices that will astound most shareholders who gratefully accepted 85 cents. OTH has a unique, irreplaceable competitive position that we expect its new owners will fully capitalise upon. The sale of OTH will bolster the Fund's cash levels by around 6%.

We have continued to accumulate shares in new activist prospects but remain quite inactive in M&A arbitrage 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

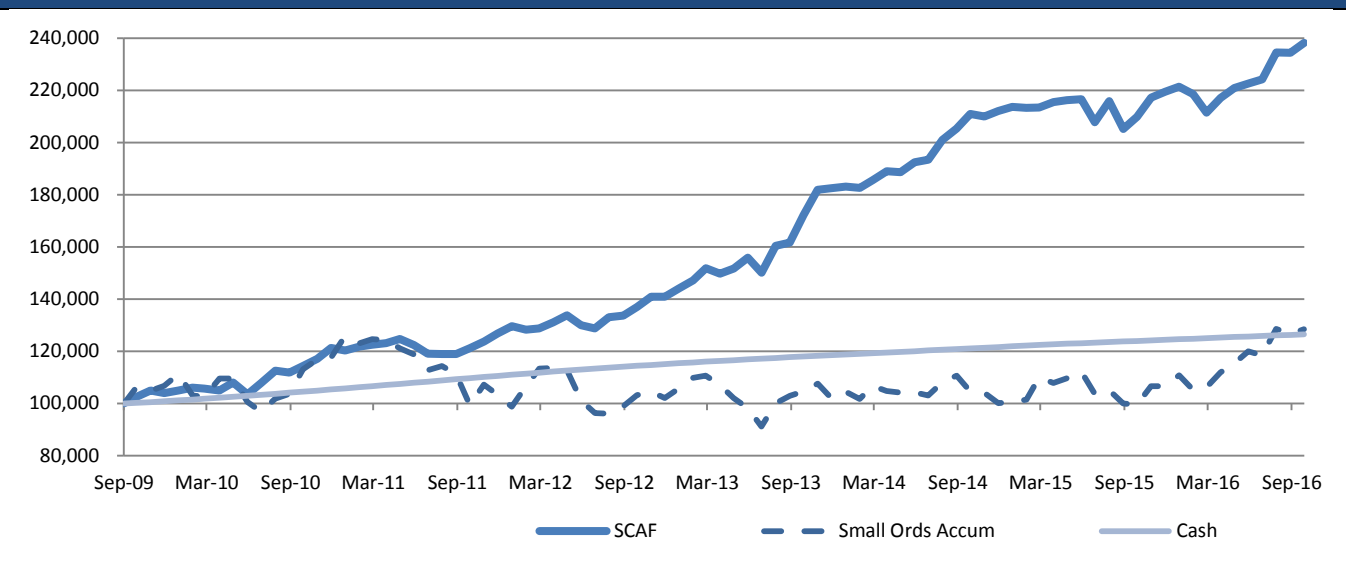
Structure	Wholesale unit trust	Minimum Investment	\$250,000 (or as agreed with trustee)
Trustee	Fundhost Ltd	Trustee Fees	0.21%
Custodian	National Australia Bank	Management Fees	1.33%
Fund Auditor	EY	Performance Fees	15.375% of returns above cash
Investment Manager	Sandon Capital Pty Ltd	Highwater Mark	Yes
Website	www.sandoncapital.com.au	Buy/Sell Spread	±0.40%
Inception	4 Sep 2009	Applications/Withdrawals	Monthly/Quarterly

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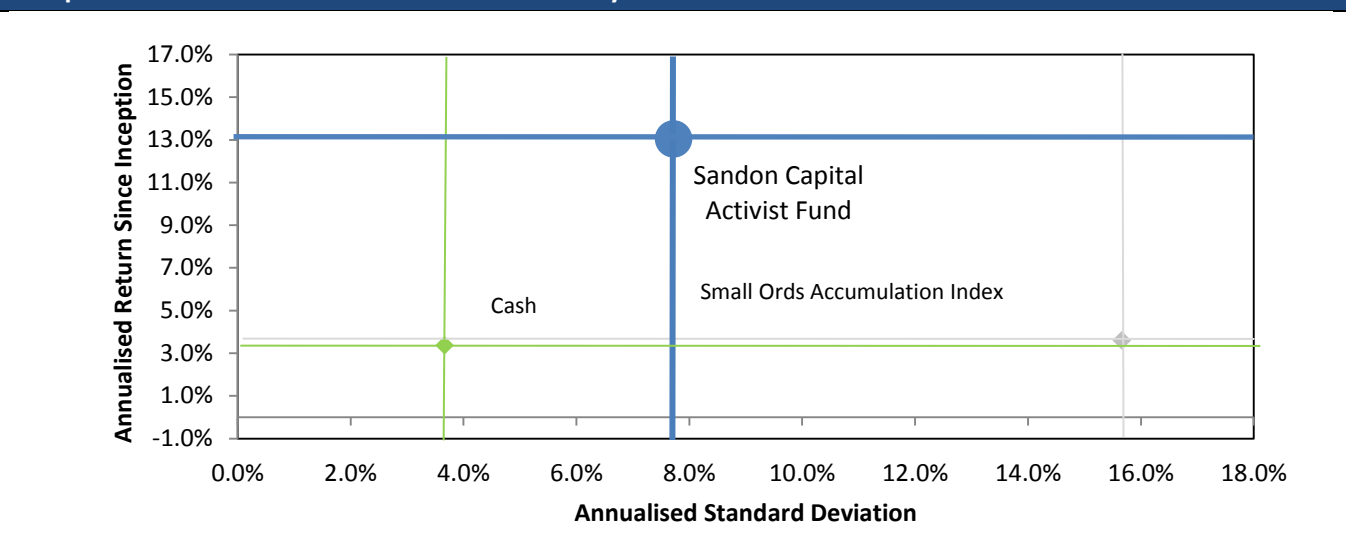
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Growth of \$100,000 invested since inception (assumes reinvestment of distributions)



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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