

SANDON CAPITAL

Sandon Capital Activist Fund

October 2018 Monthly Report

Entry/Exit Prices: \$1.7737/\$1.7595

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	-4.6%	11.1%	9.3%	9.3%	12.1%	7.9%	184.0%
S&P/ASX 200 Accum.	-6.1%	2.9%	8.2%	6.0%	7.6%	11.8%	96.3%
Small Ordinaries Accum.	-9.6%	2.6%	10.5%	6.0%	4.1%	14.7%	43.9%

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%			7.5%

Portfolio Exposures

Net Exposure	91%	Long Positions	36
Net Cash	9%	Short Positions	2

Fund Commentary

The Fund return for October was -4.6%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 12.1% per annum. Cash levels ended the month at approximately 9%, and are likely to be supplemented as a result of takeover activity within the portfolio (discussed below).

Iluka Resources Ltd (ILU) (~-1.6%), Fleetwood Corporations Ltd (FWD) (~-1.0%) and Specialty Fashion Group Ltd (SFH) (-1.0%) were the main detractors for the month. Unlike last month, the Fund was also down with the market, though less so, which is pleasing.

Aside from the downward effect of the market selling off, the only holding in which there was company specific news that might have contributed to the falling share price was ILU. ILU announced its quarterly production report, which we read as largely positive, except for the continued operational and industrial relations challenges facing its Sierra Rutile operation in Sierra Leone. We expect these will be dealt with in due course.

There was no other negative company specific news elsewhere in the portfolio.

On the positive side, Besix announced an unconditional off-market takeover offer at 92 cents per share for all the shares of Watpac Ltd (WTP) they did not own. This represented a 41% premium to the prior day's closing price and contributed approximately 1.7% to the Fund's return for the month. We are yet to decide on the offer, but note that the price is the same as when BESIX made a proportional takeover offer in February. Since then, WTP has advised the market that its order book has not only grown, but has also improved in quality of contracts. They have moved away from lower margin residential projects in favour of more specialised and presumably higher margin work, like social infrastructure. We would have thought the improvements to the order book, and the outlook statements made would have justified a higher price, yet the WTP directors seem to have jumped straight into the suitor's arms. This again highlights one of the risks of buying undervalued companies: that a takeover might be made at a premium to the share price, yet still be at a discount to the true worth of the company. If we choose to succumb, cash levels would increase by nearly 7% all other things being equal.

At the smaller end of the portfolio, October also saw the emergence of a scheme of arrangement proposal from Universal Coal plc. The proposal, if passed, would yield a cash price of 35 cents per share, a substantial premium to our average purchase price of 22 cents per share.

At the end of the month, Sandon Capital formed an association with Samuel Terry Asset Management to pursue the winding up of the AIMS Property Securities Fund (APW). We've been invested in APW for nearly two years, and it trades at a persistent discount to NTA. The current market price is \$1.80 and last reported NTA is \$2.37. This is likely to be quite a hard-fought engagement and we expect to publish our rationale in coming weeks.

During the month, another entity managed by Sandon Capital, Sandon Capital Investments Ltd (ASX:SNC) made a merger proposal to Monash Absolute Investment Company Ltd, the shares of which the Fund owns. MA1 trades at a reasonably persistent ~15% discount to NTA. The proposal would have allowed shareholders to exit its investment at NTA in cash or take SNC shares. The Fund would have elected to receive the cash option. The MA1 Board rejected the proposal. We believe the pressure is on MA1 to deliver a better outcome and we will remain, lurking, as a shareholder.

We closed out one of our three small short positions at a profit, and maintain the remaining two. The short positions made a small contribution to the monthly return (~0.1%).

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. If the past provides any indications, such turmoil is likely to provide us with some interesting investment opportunities. Beyond that, we make no predictions.

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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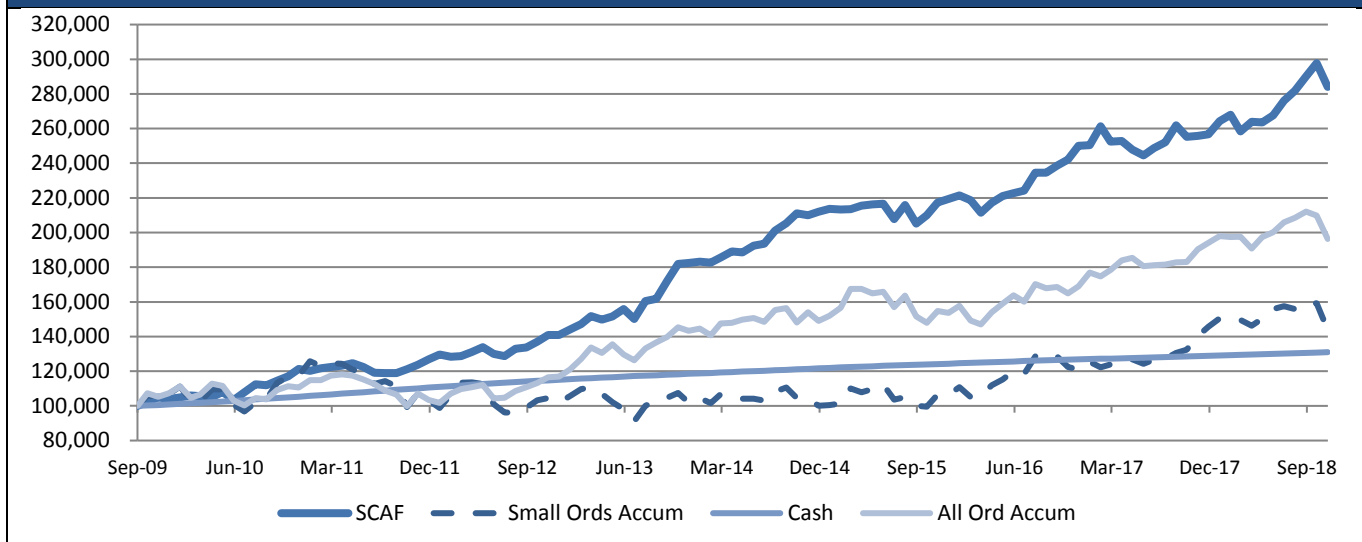
Fund Description

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.

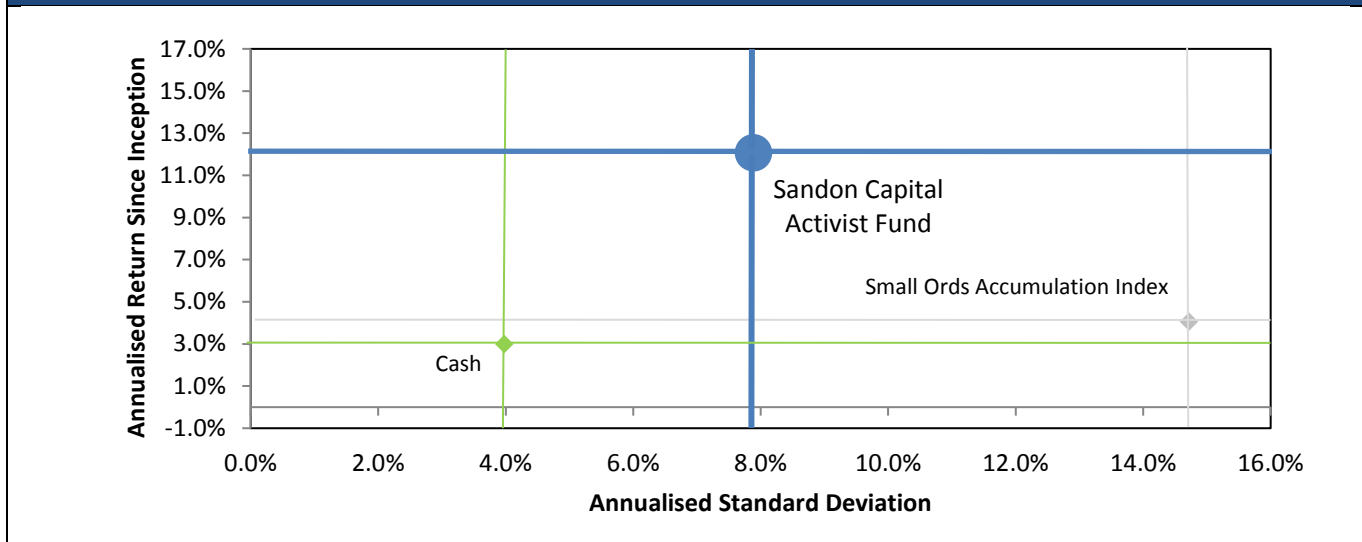
Fund Details

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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