

# SANDON CAPITAL

## Sandon Capital Activist Fund

February 2020 Monthly Report

Entry/Exit Prices: \$1.6071/\$1.5943

### 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 years (p.a.)	5 years (p.a.)	10 years (p.a.)	Annualised since Fund inception	Annualised volatility since Fund inception	Total Return since Fund inception
SCAF	-9.2%	3.4%	4.3%	6.1%	10.5%	10.6%	8.7%	186.7%
S&P/ASX 200 Accum.	-7.7%	8.6%	8.6%	6.2%	8.0%	8.2%	11.8%	129.3%
Small Ordinaries Accum.	-8.7%	1.6%	8.3%	7.4%	4.4%	4.4%	14.6%	57.4%
Cash	0.1%	1.3%	1.6%	1.8%	2.8%	2.8%	4.2%	33.5%

### Portfolio Exposures

Net Exposure	96%	Long Positions	32
Net Cash	4%	Short Positions	2

### Fund Commentary

The Fund return for February 2020 was -9.2%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 10.6% per annum. Cash levels ended the month at approximately 4% and we anticipate receiving cash equivalent to approximately 8.5% during March 2020.

The main detractors to this month's return were Fleetwood Corporation Limited (FWD) (~-2.0%), Coventry Group Limited (CYG) (~-1.7%). Most other positions were also down.

Reporting season came to an end this month, with most portfolio companies' results within expectations. We learned of solid results from companies such as City Chic Collective Ltd (CCX), which grew like-for-like revenues and profits, in spite of challenging retail conditions. We continued to sell down CCX earlier in the month as its shares rallied on the back of the strong result. Coventry Group Ltd (CYG) continued to deliver strong results, with revenues growing 36.8% and the bottom line turning a profit, compared to a loss in the prior comparable period. Infigen Energy Ltd (IFM) continued the reporting trend with a 23% increase in revenues and a 24% increase in profits. It also announced the signing of a long-term power purchase agreement for 60% of the production from one of its major wind farms.

Overall, most of the fund's core holdings delivered revenue and earnings growth, in contrast to the market in aggregate.

The exception was FWD, which failed to deliver. Its share price decline is a loud and clear message to the Board about shareholders' confidence in management (or lack thereof). Despite the message being sent, we suspect it is falling on deaf ears. FWD is once again has one of the largest discrepancies between its market price and even the most conservative estimates of its intrinsic value.

Last month, we wrote "*Markets generally remain challenging, with macro headwinds (such as bushfires and novel coronavirus) and a seemingly unconstrained appetite for growth by some investors, regardless of value.*" That report was written in early February but by the end of the month, the second part of that sentence was well and truly debunked. The rout in global markets has continued as we write this report.

Posterity will tell us what the impact of COVID-19 will have been. We are investment professionals, not health professionals. You do not need another fund manager feigning expertise in viral epidemiology. We do not know how this virus will impact our populations, nor do we have any idea of how it will impact our economies. As a result, we cannot know with any modicum of certainty what the impact on our portfolio companies will be. To do otherwise would be purely speculative – we are not speculators.

What we do know, with a great degree of certainty, is there will be a time where the impact of the virus fades, and normalcy returns.

## Air traffic climbs to new record level

International air traffic volumes, seasonally adjusted figures, January 2000=100



Source: IATA

At times like this, facts and reliable data are paramount if one wants to avoid succumbing to the panic of the crowds. A particularly useful data set comes from the International Air Transport Association (IATA), showing international air traffic volumes.

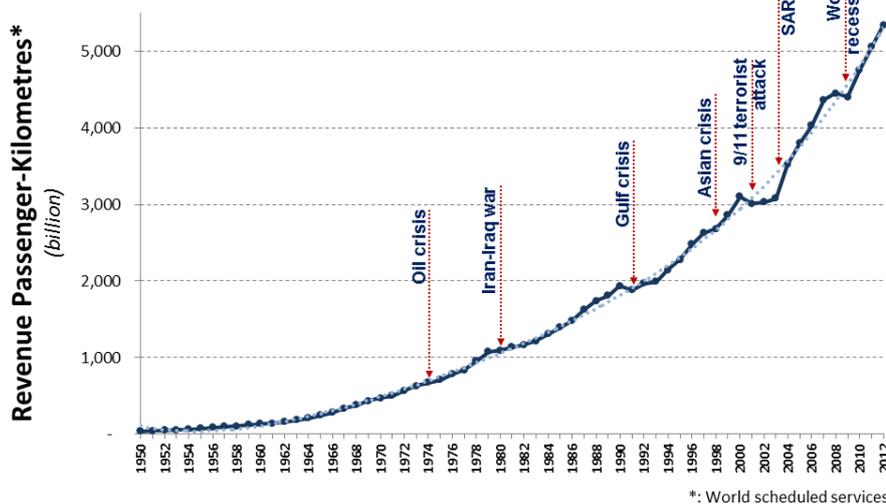
The chart on the left shows the impacts of 9/11, SARS and the GFC on air traffic volumes. The second chart shows a longer time frame, from 1950 to 2012, with more geopolitical, health and financial calamities shown.

Accepting air travel as a proxy for economic activity, we see in both charts that everything in time returns to a normal trajectory of growth.

We make most of our investments on the basis of a long-term assessment of value. As a result, we are well placed to sustain short term price volatility in our pursuit of long term rewards.

In the past fortnight, we have been net buyers of investments, and expect to continue to be so over the coming weeks and months.

## The world aviation - 1950 to 2012



\*: World scheduled services

As mentioned above, we do not know when normalcy will return, but we know it will. In the meantime, we will apply ourselves as diligently as we can to the task of creating long term value while minimising any permanent impairment of your capital.

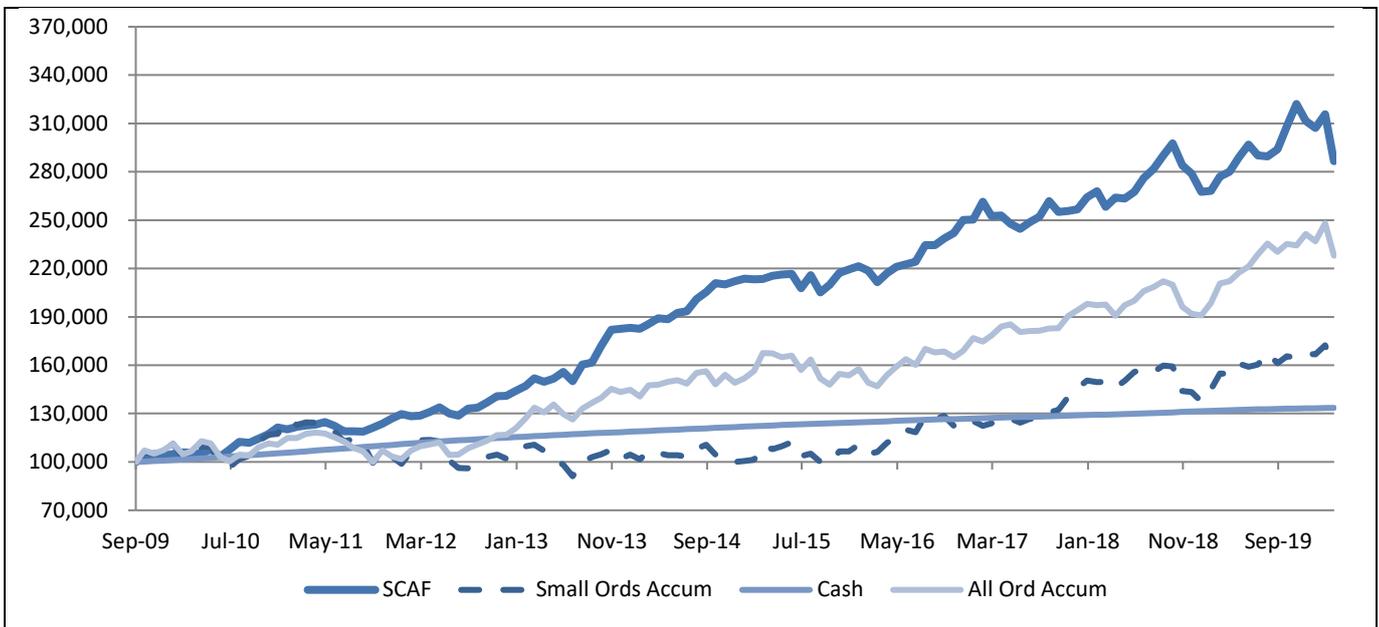
## Fund Description

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.

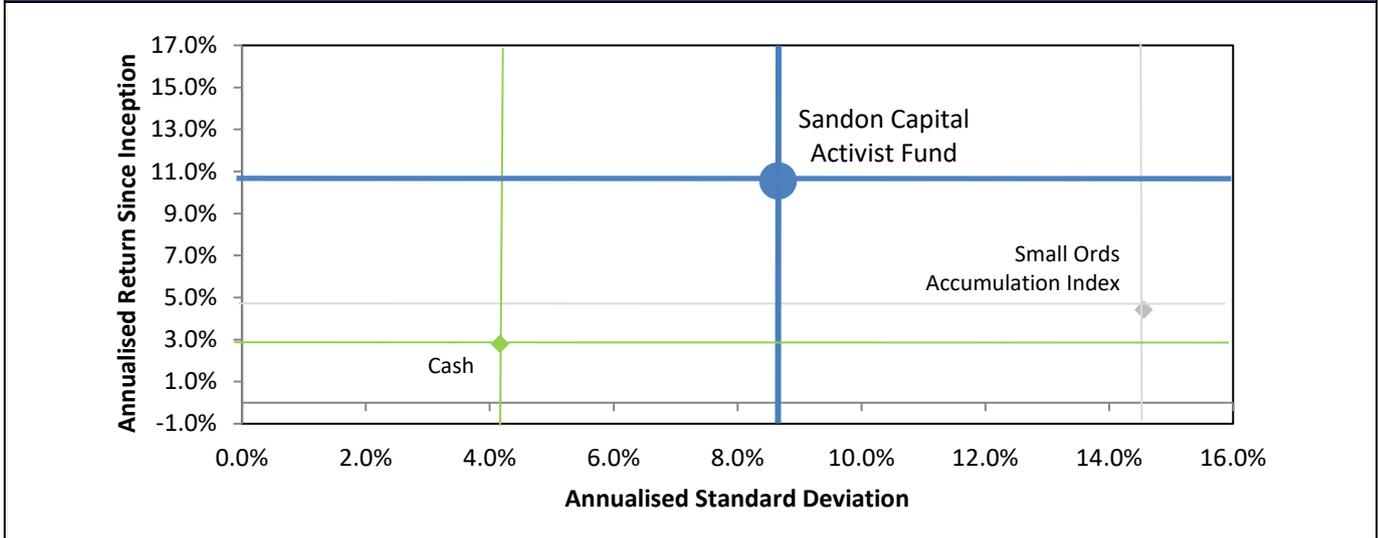
## Fund Details

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 July 2019. In particular, it is important that you understand the risks associated with an investment in the Fund set out on page 5 of the IM.

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