

# SANDON CAPITAL

## Sandon Capital Activist Fund

January 2020 Monthly Report

Entry/Exit Prices: \$1.7696/\$1.7555

### 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	2.8%	17.7%	6.5%	8.2%	11.5%	11.7%	8.1%	215.7%
S&P/ASX 200 Accum.	5.0%	24.7%	12.4%	9.3%	9.1%	9.1%	11.5%	148.4%
Small Ordinaries Accum.	3.4%	18.8%	12.1%	11.2%	5.3%	5.4%	14.3%	72.4%
Cash	0.1%	1.4%	1.6%	1.8%	2.8%	2.8%	4.1%	33.4%

### Portfolio Exposures

Net Exposure	96%	Long Positions	31
Net Cash	4%	Short Positions	3

### Fund Commentary

The Fund return for January 2020 was 2.8%, 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 4%.

The main contributor to this month's return was City Chic Collective Ltd (CCX) (~1.9%) as its share price continued to rise following a broker's "Strong Buy" initiation report. Infigen Energy Ltd (IFN) contributed approximately 1% to the monthly result. Other movements were negligible.

Despite having minimal impact on the Fund's performance, developments at Consolidated Operations Group Ltd (COG) were significant (and in our view, positive). As a brief reminder, late last year COG entered into a scheme of arrangement to merge with CML Group Ltd (CGR). Seemingly a match made in heaven, one could say both parties agreed to stand at the altar and exchange vows, subject to no-one voicing an objection. That objection came in the form of CGR competitor Scottish Pacific (ScotPac) making a non-binding indicative offer to CGR at an apparent premium to the COG-CGR scheme. CGR granted ScotPac access to conduct due diligence enquiries, notwithstanding COG concerns that there would likely be competition issues arising from a ScotPac/CGR tie up. Suddenly, the COG-CGR scheme looked in jeopardy. Just before the end of January, COG announced that it had acquired a 17.4% stake in CGR for approximately 58 cents per share. The importance of this move should not be understated. In any potential control transaction, having a stake in a target, especially those between 10% and 19.9%, can determine the ultimate outcome. A 17.4% stake means COG can prevent any third party from gaining 100% control of CGR in a takeover, since compulsory acquisition can only occur when owning 90% or more of a company's shares. Even in a scheme of arrangement, the 75% majority required to pass a scheme becomes problematic given that few, if any schemes, obtain 100% shareholder turnout. It is also worth noting that the fund, and others managed by Sandon Capital, together own approximately 2.5% of CGR.

The scheme meeting has been deferred and CGR has announced that the ScotPac due diligence is progressing. It would seem CGR remains hopeful of a definitive proposal coming from ScotPac, presumably for cash. We remain in favour of the COG-CGR scheme. Exchanging our CGR shares for new COG shares will allow us to continue to reap the benefits that are expected to arise from combining the COG and CGR businesses.

Furthermore, the tax consequences would figure in our assessment of any alternative proposal. For example, the potential for rollover relief as offered by the COG scheme. We would require a substantial premium before we would consider selling our CGR shares for cash to another party. We expect other CGR shareholders would also share a similar view, especially those fortunate enough to have bought CGR shares below current market prices.

This situation may take some time to resolve, but we remain patient and supportive of COG's approach.

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. We are not of that ilk, preferring instead to focus on our value-oriented approach, despite shorter term underperformance.

Despite the aforementioned challenges, we continue to uncover single stock investment ideas whose value potential is not determined by the vagaries of the market or a slowing economy.

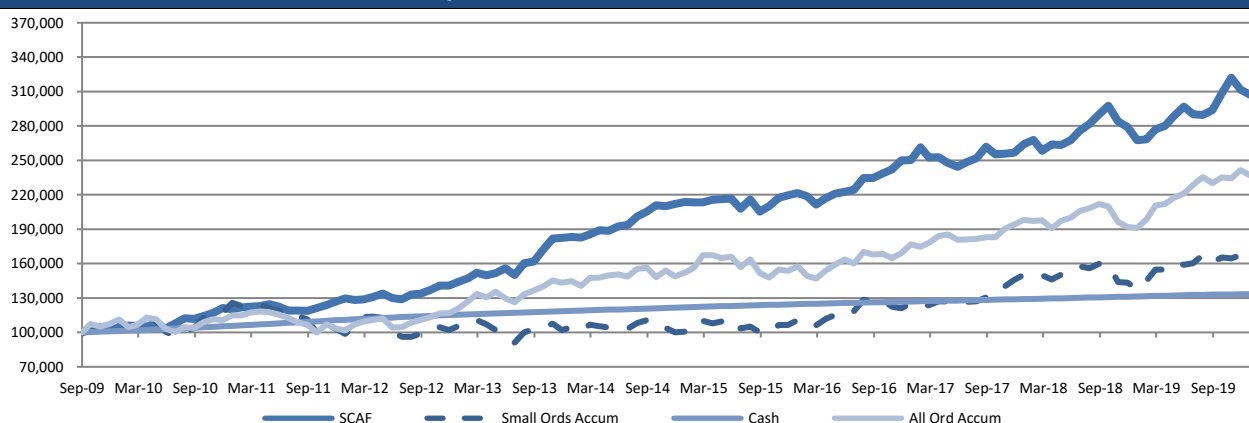
## Fund Description

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.

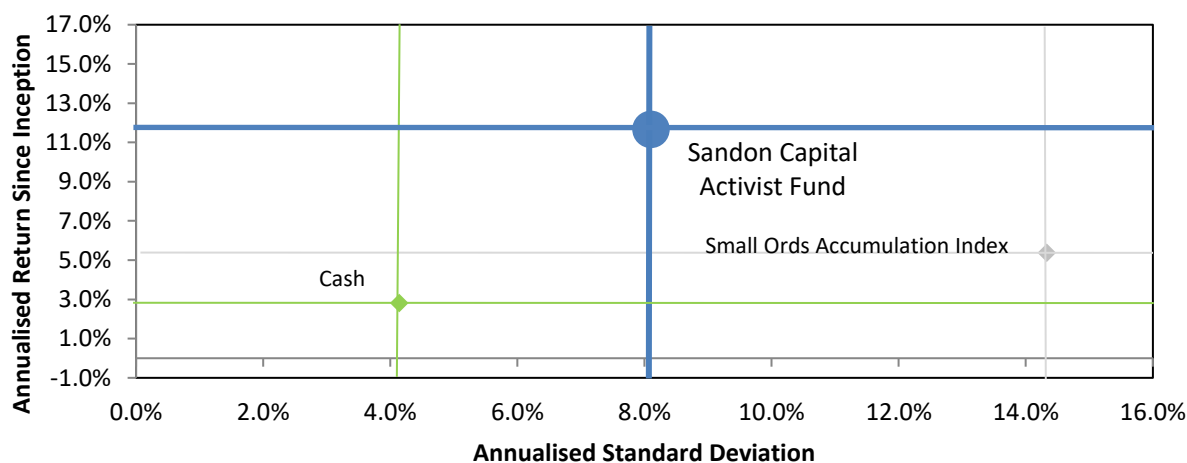
## Fund Details

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.

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.