

Sandon Capital Master Fund

September 2021 Monthly Report

Performance Results (all figures are in AUD unless otherwise stated)

for the Sandon Capital Master Fund calculated net of Feeder Fund "Z" Class share fees, assuming reinvestment and using NAV. Indices are before fees. Feeder Fund investors should refer to their feeder fund statement for their own specific unit class returns

	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
SCMF	-1.6%	61.3%	-	-	29.3%	20.3%	67.3%

For long term return from the investment strategy, please refer to return from Sandon Capital Activist Fund.

Net Monthly Returns (reported on the same basis as above)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019										2.6%	-1.3%	0.1%	1.3%
2020	1.0%	-6.9%	-17.8%	8.4%	5.9%	1.7%	2.2%	11.3%	-0.4%	2.4%	9.0%	2.3%	16.9%
2021	1.2%	5.8%	8.3%	3.6%	2.7%	5.9%	3.7%	6.0%	-1.6%				41.3%

Portfolio Exposures

Long Exposure	104%	Long Positions	28
Short Exposure	0%	Short Positions	-
Cash	0%	Australia	103%
Net Exposure	104%	International	1%
		Currency Exposure	103% AUD/ 1% USD

Fund Details

Structure	Cayman Islands Master Fund	Share Classes	A	B	C (founders)	Z
Auditor		Min Investment	USD1M	USD1M	USD1M	AUD1M
Prime Broker	Deutsche Bank	Management Fees	1.5%	1.25%	1.0%	1.5%
Fund Administrator	BNP Fund Services	Performance Fees	15.0%	12.5%	10.0%	15.0%
Investment Manager	Sandon Capital Pty Ltd	Lock up (months)	No	36	12	No
Website	www.sandoncapital.com.au	Redemption Fee	No	3%	3%	No
Fund inception	1 October 2019	Highwater Mark				
		Applications / Redemptions	Monthly/monthly – 90 days' notice			

Fund Commentary

The Fund return for September 2021 was -1.6%. Net exposure was approximately 104%.

The main detractors to the portfolio this month were BCI Minerals Ltd (**BCI**) and Fleetwood Ltd (**FWD**). BCI was again impacted by a falling iron ore price. As we noted last month, BCI's Iron Valley iron ore royalty comprises a small part of the investment thesis and value of the company. We intend to discuss our BCI thesis in a more detailed report over the next few weeks. The remainder of the portfolio delivered a net positive return for the month with the key contributor being City Chic Collective Ltd (**CCX**).

FWD is the largest position in the portfolio and one of the investments we are most excited about. Whilst the market is focused on the short-term impact on the company of pandemic driven lockdowns, we believe there are a number of large and long duration opportunities that could see many years of earnings growth ahead.

The most important changes at FWD in many years occurred in the first half of 2021 when John Klepec was appointed Chairman and Bruce Nicholson joined as the new CEO. In his role as executive chairman of Wellard Ltd (**WLD**), John has been instrumental in transforming that company from a near-failure into a business today that has a bright future. We believe WLD is a textbook example of how good board oversight and an engaged management team can deliver a successful turnaround. We have already seen early signs of John's influence at FWD and look forward to him bringing his skills to bear over the next few years.

In the early days of Bruce's tenure as CEO, we have been encouraged by his no nonsense approach and believe his many years of experience and skills developed in the construction and manufacturing industries will be important to the future direction of FWD. In particular, we are looking forward to him delivering on the cost reductions that should flow from the integration and standardisation of FWD's national footprint in its Building Solutions business. We have been involved in a number of turnaround situations over the past decade and have a good understanding of the difficulties and time required. A good example is our long-held investment in Coventry Group Ltd (**CYG**) where the fruits of many years of hard work by Neil Cathie (Chairman), Robert Bulluss (Managing Director) and their team have only started to bear fruit over the last twelve months. At FWD, we are confident that a successful operational turnaround can be achieved.

The key driver for FWD's Accommodation Solutions business over the next 5-10 years will be construction activity in and around the Karratha region. The future there is looking increasingly positive. We expect Woodside Energy is only months away from sanctioning the development of its Scarborough gas field and the associated expansion of its Pluto LNG plant.

The recent strength in energy prices, in particular that of LNG, is undoubtedly a positive for the economics of Scarborough/Pluto 2, should it continue for the longer term.

The sanctioning of Scarborough is also likely to improve the approval prospects of the nearby Perdaman urea plant. During the month, the Perdaman project received approval from the Western Australian Environment Protection Authority (EPA) and we believe that financing and final certainty around gas supply are the final hurdles to clear before construction of the project is approved.

If both Perdaman and Scarborough/Pluto 2 proceed, and we think they will, we expect demand for accommodation in Karratha to exceed 5,000 rooms, well above the current and planned capacity of the market of 4,000 rooms. Under this scenario, we believe FWD's Accommodation Solutions business is set for a multi-year period of prosperity.

During the month, FWD announced that it had secured a \$32m contract to supply modular buildings to the Centre for National Resilience (CNR) in Melbourne (previously known as a quarantine facility for returned travellers). Given FWD's national footprint and its partnership with Multiplex at the Melbourne facility, we believe the company is well placed to win further contracts for the rollout of the two remaining CNRs in Queensland and Western Australia. In its announcement of the Melbourne contract, FWD stated that *"We are ... confident that this contract will bode well for opportunities to take part in subsequent expansions and new facility builds that are being proposed."*

The CNRs are good examples of the increasing acceptance and acknowledgement of modular buildings as a design-, cost- and time-effective solution for the construction of major projects. We have seen this acceptance increase in FWD's core education, custodial, mining and affordable housing sectors and expect these markets to continue to increase the adoption and penetration of modular buildings. Furthermore, we believe the benefits that modular construction bring can also be applied to other construction sectors. These markets provide large and long duration growth opportunities for FWD's Building Solutions business. As the largest modular construction company in Australia, and the only one with a national footprint, FWD is well placed to take advantage of these opportunities and drive the national uptake of modular buildings. FWD's scale also gives it the opportunity to improve manufacturing techniques and methods. Although requiring investment, such improvements should help FWD improve its margins and allow it to become more competitive than smaller, less automated peers.

Whilst lockdowns in NSW and Victoria are having a short-term negative impact on the operations of FWD, we believe the medium to longer term is looking increasingly positive. With a refreshed and well-regarded leadership team in place, a balance sheet with net cash of >\$55m and a plethora of internal and external opportunities, we expect significant earnings and cash flow growth at FWD over the next 3-5 years.

Last year, FWD generated Net Profit After Tax and before Amortisation (NPATA) of \$17.3m. Based on the growth opportunities the company has ahead of it, we believe the company can generate annual NPATA in excess of \$40m within the next 3 years. Should it achieve this level of earnings and the market starts to value the long duration growth embedded in the company, we believe the share price should rise above \$6, or almost triple where it is trading today.

FWD is one of a number of investments in the portfolio for which we have high expectations over the medium term. We also continue to uncover attractively priced (that is, cheap) opportunities that are being completely overlooked by the market. We look forward to updating you on existing and new investments over the remainder of 2021 and into 2022.

Contact Details

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