SANDON CAPITAL

Sandon Capital Activist Fund

February 2022 Monthly Report

Entry/Exit Prices: $2.3554/$2.3414

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	-4.5%	9.5%	14.9%	10.7%	12.6%	12.2%	13.1%	320.6%
S&P/ASX 200 Accum.	2.1%	10.2%	8.4%	8.5%	9.6%	8.2%	13.3%	169.1%
Small Ordinaries Accum.	0.0%	5.0%	7.7%	9.4%	5.5%	5.4%	16.4%	93.7%
Cash	0.0%	0.0%	0.6%	1.0%	1.8%	2.4%	5.1%	33.8%

Portfolio Exposures

Net Exposure	99%	Long Positions	30
Net Cash	1%	Short Positions	0

Fund Commentary

The Fund return for February 2022 was -4.5%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 12.2% per annum. Cash levels ended the month at approximately 1%.

The largest detractors for the month were City Chic Collective Ltd (**CCX**) (-2.1%) and Fleetwood Ltd (**FWD**) (-2.0%). The major positive contributor was Alliance Resources Ltd (**AGS**) (0.7%), which announced an intention by the major shareholder to make a takeover offer at 18 cents per share.

Last month we wrote "(*w)hilst the share prices of many of our largest positions suffered during the month, many of these same companies provided strong operating updates*." Despite our positive interpretation of corporate results, the share prices of two of our largest holdings were savaged, in particular CCX. Although CCX had flagged for some time that it was building inventories to ensure uninterrupted sales, it seems some shareholders and the market generally were taken by surprise and saw the inventory build as negative. Sentiment was also hurt by the company describing its forward sales growth as being "*subdued*". Perhaps a poor choice of word given sales growth is still expected to be in the 15%-20% range.

The inventory build is a quandary for many investors. Perhaps it is worth remembering a few axioms about retailing. One we might all know is "*the customer is always right*", another less well known is "*stock-outs cause walkouts*". This means that if a customer cannot find what they want, they will tend to leave, possibly never to come back. There is considerable research about the impact of stock-outs. Most estimates suggest that about one third of customers leave without buying anything. Availability of product usually figures in the top 2 or 3 issues that matter most to consumers around the world. In the online world, we understand those customers tend to leave and never return.

The COVID pandemic has taught us many lessons, including the fragility of supply chains that businesses have built. For many, at the first signs of supply chain stress, lack of stock (aka "stock-outs") emerged. Businesses (and investors) who've become used to just-in-time supply chains and ever-decreasing inventories and working capital ratios have had to confront the reality that their rules of thumb may no longer apply, let alone be prudent.

CCX management was able to grasp the supply chain risks of COVID early on. They decided that having plentiful inventory was less risky than having a shortage of inventory. When they explained their reasons, building inventory seemed a reasonable move. Last year's results vindicated this decision. Following two acquisitions, which brought many more online customers to CCX, management decided to continue building inventory.

While no guarantee of success, we again see the merits of doing this. For each dollar of inventory, we expect CCX should generate at least two dollars of sales. Furthermore, for each dollar of inventory we believe the company can earn net profits after tax of 15-20 cents. Assuming the inventory turns twice a year, this equates to a return on inventory investment of 30-40% per annum, a rate of return we would certainly be happy to earn as a CCX shareholder (or as an investor in anything for that matter). The proviso to all this arithmetic is that CCX needs to sell garments – given its track record, we rate the odds in its favour.

From its peak last year, CCX's share price has fallen by more than 50%. A frustrating and unpleasant experience, but more so because we consider the company continues to execute its business plan well. Interestingly, this will be the third time since we became shareholders that the share price has fallen by more than 50%. An unusually volatile ride, but still one of our most profitable. We remain convinced that CCX is an exceptional retailer with exceptional growth prospects. We expect the company will present full year results that vindicate the shorter-term inventory build.

A2B Australia Ltd (**A2B**) about which we wrote last week, announced the appointment of Mr Mark Bayliss as its new executive chairman. Mark has a demonstrated track record of turning around underperforming companies, including CSG Ltd and e-commerce company Gray's Online. Mark will oversee the previously announced strategic review. We look forward to the company announcing the results of this process.

Global events have once again overshadowed markets, with the Russian invasion of Ukraine. While conflict persists, we expect financial market volatility will continue. We have added to some positions and are attuned to new investment opportunities.

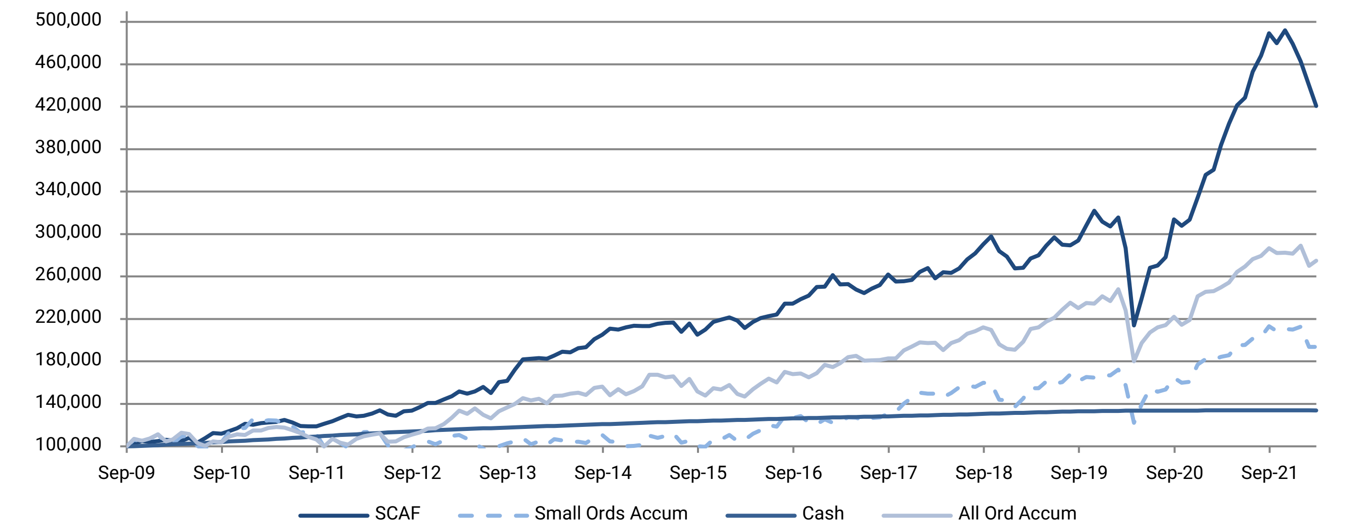
Fund Description

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.

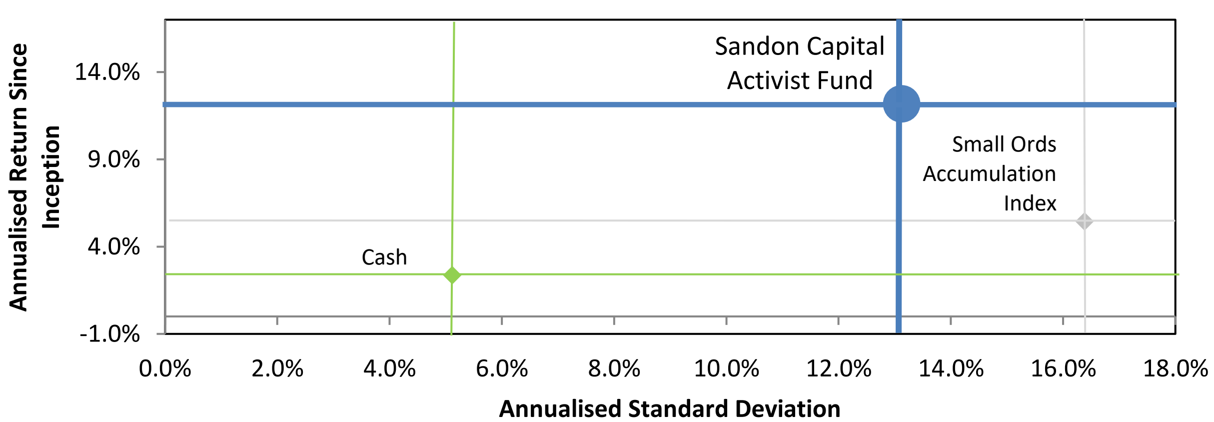
Fund Details

Structure	Wholesale unit trust	Minimum Investment	$250,000 (or as agreed with trustee)
Trustee	One Fund Services Ltd	Trustee/Admin Fees	0.21%
Custodian	One Investment Group	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	±0.30%
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



Sources for all charts: Sandon Capital, Bloomberg
Note: SCAF returns are net of all fees and expenses. Fund inception is 4 September 2009.