

SANDON CAPITAL

Sandon Capital Activist Fund

August 2022 Monthly Report

Entry/Exit Prices: \$2.0911/2.0785

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	-3.0%	-23.7%	8.3%	7.3%	10.8%	10.7%	13.7%	273.4%
S&P/ASX 200 Accum.	1.2%	-3.4%	5.5%	8.1%	9.3%	8.0%	13.5%	171.1%
Small Ordinaries Accum.	0.6%	-14.7%	4.1%	6.9%	6.3%	4.7%	17.0%	81.9%
Cash	0.1%	0.2%	0.3%	0.9%	1.6%	2.3%	5.2%	34.0%

Portfolio Exposures

Net Exposure	93%	Long Positions	25
Net Cash	7%	Short Positions	0

Fund Commentary

The Fund return for August 2022 was -3.0%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 10.7% per annum. Cash levels ended the month at approximately 7%.

The largest detractors for the month were City Chic Collective Ltd (**CCX**) (-1.6%) and Fleetwood Ltd (**FWD**) (-1.1%). The remaining 23 positions in the fund were together a small net detractor (~30bps).

CCX continues to be one of the battleground stocks in the market. The FY22 result delivered by the company was in line with prior guidance, however the equity market remains fixated on the strategic short-term inventory that the company has built. We have a more sanguine view and believe that the inventory will allow the company to take share from competitors who are unable to supply (the right) product to their customers. As the inventory is sold down and converted to cash, we expect CCX to use its strong balance sheet to aggressively buy back stock, particularly if it remains at current prices.

The last time CCX traded at these share price levels was soon after the company reported its FY19 results. In FY19, CCX generated revenue of \$148m, underlying EBITDA of \$24.9m and underlying net profit before tax of \$21.3m. In FY22, CCX generated revenue of \$369m, underlying EBITDA of \$47.1m and underlying net profit before tax of \$39.5m. A lot has been achieved in the intervening period – CCX has transformed from a largely Australian/NZ focused bricks and mortar retailer into a global omni-channel retailer, with established positions in the UK and US markets, a burgeoning presence in continental Europe and a resilient global supply chain that is less reliant on China. We believe that CCX's very small share of a growing end market puts it in the enviable position of having the capacity to grow earnings strongly for many years.

Similar to CCX, the equity market seems focused on the shorter term at FWD, notably the problems with the Rio Tinto Ti-Tree Rail Camp Upgrade in Western Australia (part of the Building Solutions segment). Whilst frustrating, the economic impact is now significantly diminished and we expect the company to put this saga behind it in the next few months. The Building Solutions business had been poorly managed for many years and had an entrenched culture of pursuing growth, with no regard for profitability. The shortcomings of this strategy are still apparent in the results this business is delivering today. However, there are reasons to be optimistic. The entire management team of the division has been replaced and there is now a sharp focus on profitability rather than growth at any cost. We speak with a number of FWD's competitors and have a good appreciation of the profit potential of a modular construction business when it is run properly. Given the significant change in management and culture, we do not expect the business to reach its full potential for a number of years. Despite this, we still expect a significant earnings improvement in the short term as the business returns to profitability from the large loss (-\$24.3m) delivered in FY22.

After Board and management changes last year, there is a lot that is (finally) starting to go right at FWD. The Company has a very strong balance sheet (\$55m of net cash), the RV Solutions business is performing exceptionally well and the Searipple accommodation village is rapidly increasing its occupancy rates as a significant amount of large project construction work commences on the Burrup Peninsula. We expect a strong turnaround in earnings in FY23 regardless of the economic environment, with continued growth in later years as the core Building Solutions business starts to deliver on its potential.

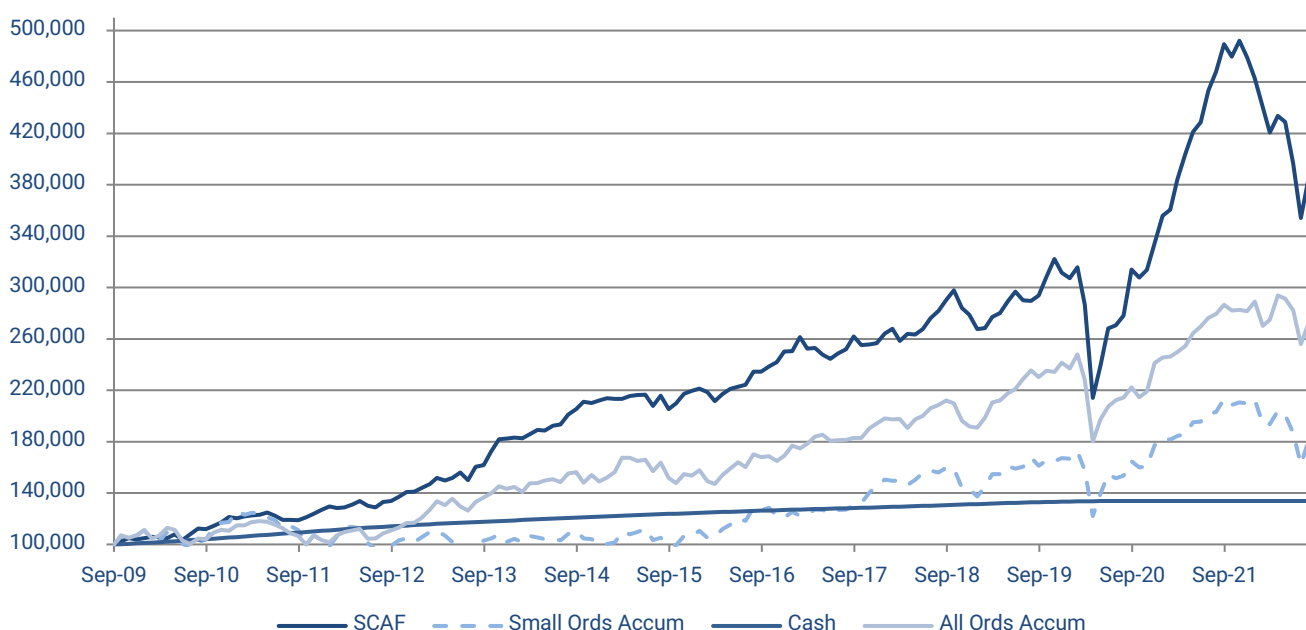
Fund Description

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.

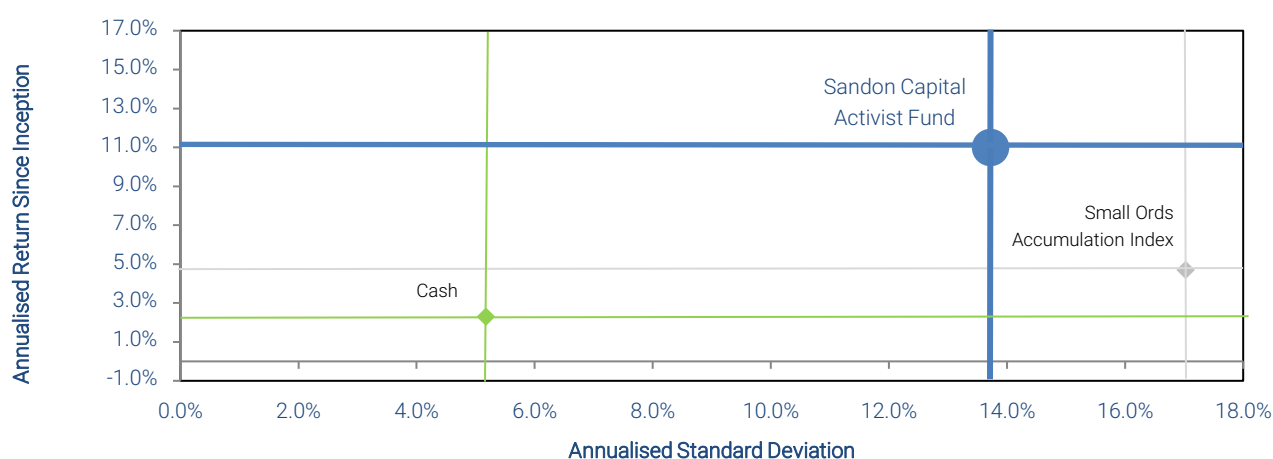
Fund Details

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.

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