

## MONTHLY REPORT

# Sandon Capital Activist Fund (SCAF)

Entry Price      Exit Price  
**\$1.9461**      **\$1.9345**

**OCTOBER 2022**

## PERFORMANCE RESULTS

|                         | 1 month | 1 year | 3 years<br>(p.a.) | 5 years<br>(p.a.) | Annualised<br>since fund<br>inception | Total<br>Return<br>since Fund<br>inception |
|-------------------------|---------|--------|-------------------|-------------------|---------------------------------------|--|
| SCAF                    | 1.3%    | -29.4% | 2.6%              | 6.3%              | 9.9%                                  | <b>247.5%</b>                              |
| S&P/ASX 200 Accum.      | 6.0%    | -2.0%  | 4.8%              | 7.2%              | 7.8%                                  | <b>169.7%</b>                              |
| Small Ordinaries Accum. | 6.5%    | -18.3% | 1.5%              | 4.2%              | 4.2%                                  | <b>72.0%</b>                               |
| Cash                    | 0.2%    | 0.5%   | 0.3%              | 0.9%              | 2.3%                                  | <b>34.5%</b>                               |

## FUND COMMENTARY

The Fund return for October 2022 was 1.3%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 9.9% per annum. Cash levels ended the month at approximately 4%.

Notable company updates during the month were universally positive. The largest contributors to performance were Fleetwood Ltd (FWD) (+2.1%), Link Administration Holdings (LNK) (+0.4%) and Karoon Energy Ltd (KAR) (+0.2%). These were partially offset by COG Financial Services Ltd (COG) (-1.6%) which provided a strong trading update and was promptly punished by the market.

Key to the update provided by FWD at its AGM were the changes that have occurred at the Building Solutions business as a result of its unsatisfactory performance in FY22. A back-to-basics approach focusing on smaller, less complicated projects has been implemented, management teams in most states have been replaced and the business is moving to a centralised model to improve co-ordination and effectiveness of functions such as sales, estimating, design, procurement and manufacturing. We expect these changes should return the business to profitability in FY23 and set it on a path to sustainable margins in the longer term. The outlook for the Community Solutions continues to remain robust with a high probability that Western Australia's Northwest will see significant future development of new projects in the oil and gas, fertiliser and green energy sectors. Existing contracts with Rio Tinto and Woodside at Searipple will underpin base earnings for the medium term.

LNK announced that it had engaged on a non-exclusive basis with previous suitor, Canadian listed Dye & Durham (D&D), regarding a non-binding, conditional and indicative proposal to acquire LNK's Corporate Markets (CM) and Banking & Credit Management (BC&M) businesses for A\$1.27bn. LNK also announced later in the month that it had appointed corporate advisers to explore divestment options for its Link Funds Solutions business. LNK has previously highlighted the potential for an in-specie distribution to shareholders of a minimum of 80% of LNK's shareholding in PEXA (PXA), leaving the Retirement & Superannuation Solutions (RSS) as the only business that is not formally on the block. Earlier this year, whilst LNK was attempting to complete its Scheme of Arrangement with D&D, the RSS business was subject to a A\$1.5bn non-binding indicative proposal from FNZ Group, so it may only be a matter of time before this business is also put in play.

LNK has all the hallmarks of a classic break-up play, with the constituent parts worth significantly more than what is imputed in the share price today. The value of LNK's PXA stake and the new approach from D&D alone are equivalent to the current enterprise value of LNK. We look forward to further developments over the ensuing months.

COG announced unaudited Q1 FY23 results, with Net Profit After Tax before Amortisation (NPATA) up 30% on the prior corresponding period. Both the Finance Broking & Aggregation (FB&A) and the Funds Management & Lending (FM&L) businesses performed strongly in what is traditionally a seasonally weaker period. Importantly, the forward order book for the FB&A business is very strong with the core markets of infrastructure, mining, heavy haulage, and agriculture seeing continued robust demand. This implies that the strong operating performance exhibited by the company will continue for the foreseeable future. Despite the strong trading update, the COG share price declined 8.1% for the month, underperforming the Small Ordinaries Accumulation Index by almost 15%.

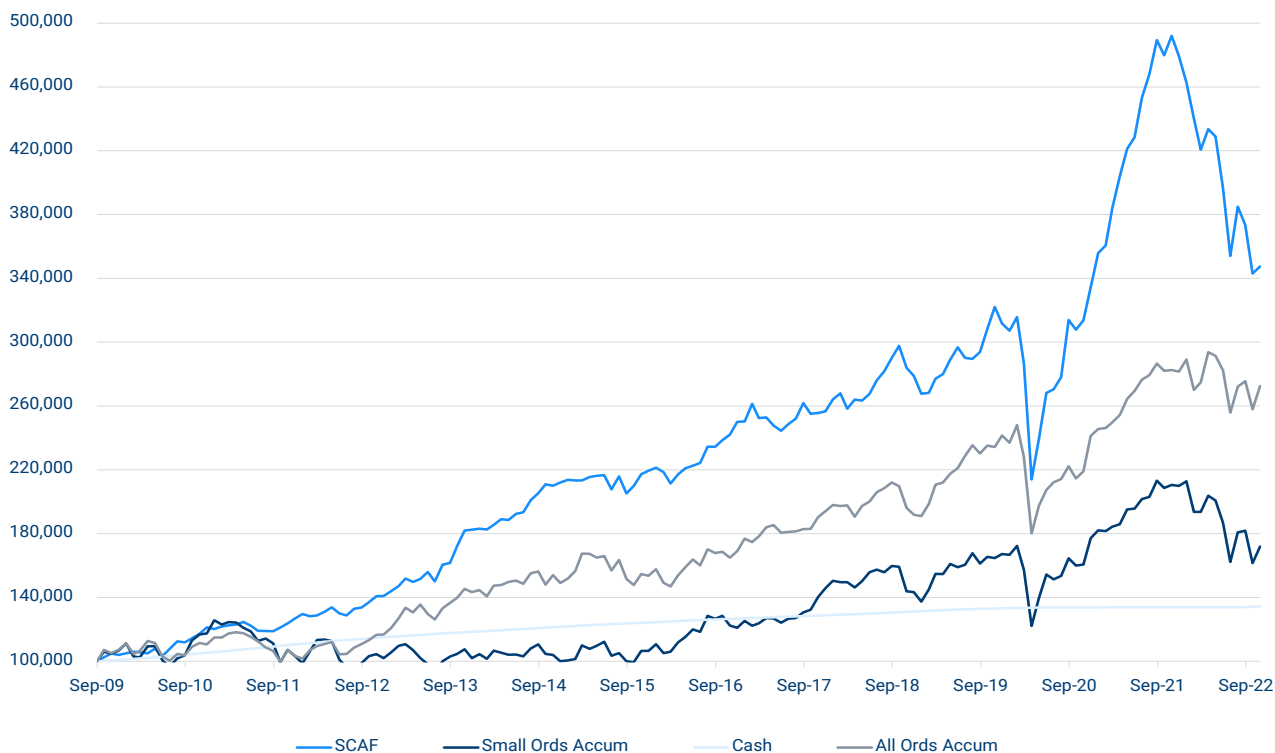
Coventry Group Ltd (CYG) provided a Q1 FY23 trading update in the middle of the month, with revenues up 15% and adjusted EBIT up 20.3% on the prior corresponding period. Importantly for a distribution business, the company is starting to see price and cost inflation ease, as well as a reduction in supply chain challenges and stock shortages. Management remain quietly confident that further growth will be driven by market share gains, new branches, product range extensions and acquisitions. Despite the strong trading update, the CYG share price only increased 1.6% for the month, underperforming the Small Ordinaries Accumulation Index by almost 5%.

IDT Australia Ltd (IDT) announced significant change at Board level with incumbent non-executive directors, Hugh Burrill and Michael Kotsanis, making way for Mark Simari and Geoffrey (Geoff) Sam. Both Mark and Geoff are experienced and accomplished professionals in the health care space. Mark was the co-founder and inaugural Managing Director of Paragon Care Ltd, a leading supplier of medical equipment, devices and consumables in Australia. Geoff was the co-founder and is a current board member of Health Care Australia Pty Ltd, a privately owned health care company owning a portfolio of 18 hospitals. Sandon Capital is very supportive of both appointments.

Midway Ltd (MWY) announced the settlement of the first tranche of the sale of 17,000 hectares of existing hardwood plantations in south-west Victoria to a subsidiary of global insurance company, Munich Re. The settlement clears the way for shareholders to receive a special, fully franked dividend of up to 19.5 cents per share in 1H CY23. We expect to hear further detail on this special dividend in the not too distant future, potentially at the AGM in late November. The net proceeds of the sale of MWY's plantation land exceed the current enterprise value of the company. In addition, the company has 19 hectares of valuable land at Geelong Port, as well as a woodchip export business that has been hamstrung by the decision of previous management to put in place long dated foreign currency contracts. Importantly, these contracts (at a AUDUSD exchange rate of 0.7514) roll off at year end. In the next few months, we are also expecting an update on the grain terminal proposal that the company has been working on for more than a year.

AGM season continues in earnest throughout November. We expect to receive trading updates and outlooks from many of our investments and look forward to reporting on these next month.

## GROWTH OF INVESTMENT SINCE INCEPTION



## PORTFOLIO EXPOSURES

|                 |     |
|-----------------|-----|
| Net Exposure    | 96% |
| Net Cash        | 4%  |
| Long Positions  | 25  |
| Short Positions | 0   |

## TOP 5 POSITIONS

|                        |     |
|------------------------|-----|
| COG Financial Services | 18% |
| Fleetwood              | 14% |
| Coventry Group         | 9%  |
| A2B                    | 8%  |
| Midway                 | 6%  |

## 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

|                                 |                                       |
|---------------------------------|---------------------------------------|
| <b>Structure</b>                | Wholesale unit trust                  |
| <b>Trustee</b>                  | One Fund Services Ltd                 |
| <b>Custodian</b>                | One Investment Group                  |
| <b>Fund Auditor</b>             | EY                                    |
| <b>Investment Manager</b>       | Sandon Capital Pty Ltd                |
| <b>Inception</b>                | 4 Sep 2009                            |
| <b>Minimum Investment</b>       | \$250,000 (or as agreed with trustee) |
| <b>Trustee/Admin Fees</b>       | 0.21%                                 |
| <b>Management Fees</b>          | 1.33%                                 |
| <b>Performance Fees</b>         | 15.375% of returns above cash         |
| <b>High water Mark</b>          | Yes                                   |
| <b>Buy/Sell Spread</b>          | ±0.30%                                |
| <b>Applications/Withdrawals</b> | Monthly/Quarterly                     |

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