

MONTHLY REPORT

Sandon Capital Activist Fund (SCAF)

Entry Price Exit Price
\$1.8965 **\$1.8851**

JANUARY 2023

PERFORMANCE RESULTS

	1 month	1 year	3 years (p.a.)	5 years (p.a.)	Annualised since fund inception	Total Return since Fund inception
SCAF	3.4%	-23.1%	2.4%	4.8%	9.5%	238.6%
S&P/ASX 200 Accum.	6.2%	12.2%	6.0%	8.5%	8.4%	195.6%
Small Ordinaries Accum.	6.6%	-4.4%	2.4%	4.4%	4.7%	85.1%
Cash	0.3%	1.2%	0.5%	0.9%	2.3%	35.4%

FUND COMMENTARY

The Fund return for January 2023 was 3.4%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 9.5% per annum. Cash levels ended the month at approximately 4%.

The largest contributors to performance were City Chic Collective Ltd (CCX) (0.7%), BCI Minerals Ltd (BCI) (0.5%) and COG Financial Services Ltd (COG) (0.5%). Coventry Group Ltd (CYG) (-0.5%) was the main detractor.

CCX provided a trading update for the 26 weeks to 1 January 2023, with sales down 8% year on year. The US was the weakest region with sales down 14%, whilst in Australia sales were down 3%. Consistent with previous guidance, inventory levels are on track to reach between \$125 and \$135 million by 30 June 2023. Debt facilities were renegotiated, with limits reduced and covenant relief provided. Also during the month, an entity associated with renowned retailer and investor Brett Blundy became a 7.3% owner of CCX.

CYG was an example of the dichotomy we've observed in a number of investments over the past 6-12 months. During the month it provided a very strong trading update, with 1HFY23 sales up >12% on the prior corresponding period and unaudited earnings before interest and tax up by >13%. The announcement also cited growth opportunities across its business segments, tempered by labour and skills shortages (like much of the country). Despite the strong trading update, CYG shares were down >9% for the month, underperforming the small ordinaries index by >15%.

Half year reports are beginning to emerge and outlook statements are being scrutinised. Most of the companies in the portfolio report later in February, so at this stage there is little company specific news to report.

Investment markets continue to be volatile. The news of each day seems to drive markets up or down, with mood oscillating between mania and depression. As the world seems to acclimatise to the war for Ukraine, the battle against inflation (and its sole weapon, interest rates) dominates investor thinking. The human predilection for certainty is clashing with a large amount of geopolitical and economic uncertainty. The decline in prices for many

investments means more investors have sought the certainty of selling than the (perceived) uncertainty of remaining invested.

Presently, concerns abound regarding the prospects for businesses in an inflationary environment. In March last year, we wrote about the effects of cost pressures on the companies in our portfolio and that we would be paying attention to how such costs could be mitigated, for example by being passed to customers. Six months later, COG, the largest investment in the portfolio reported increased revenues and profits (evidence of cost increases having been mitigated). We expect COG will report similar dynamics in the most recent half year. Aforementioned CYG has also been able to grow revenues and profits similarly.

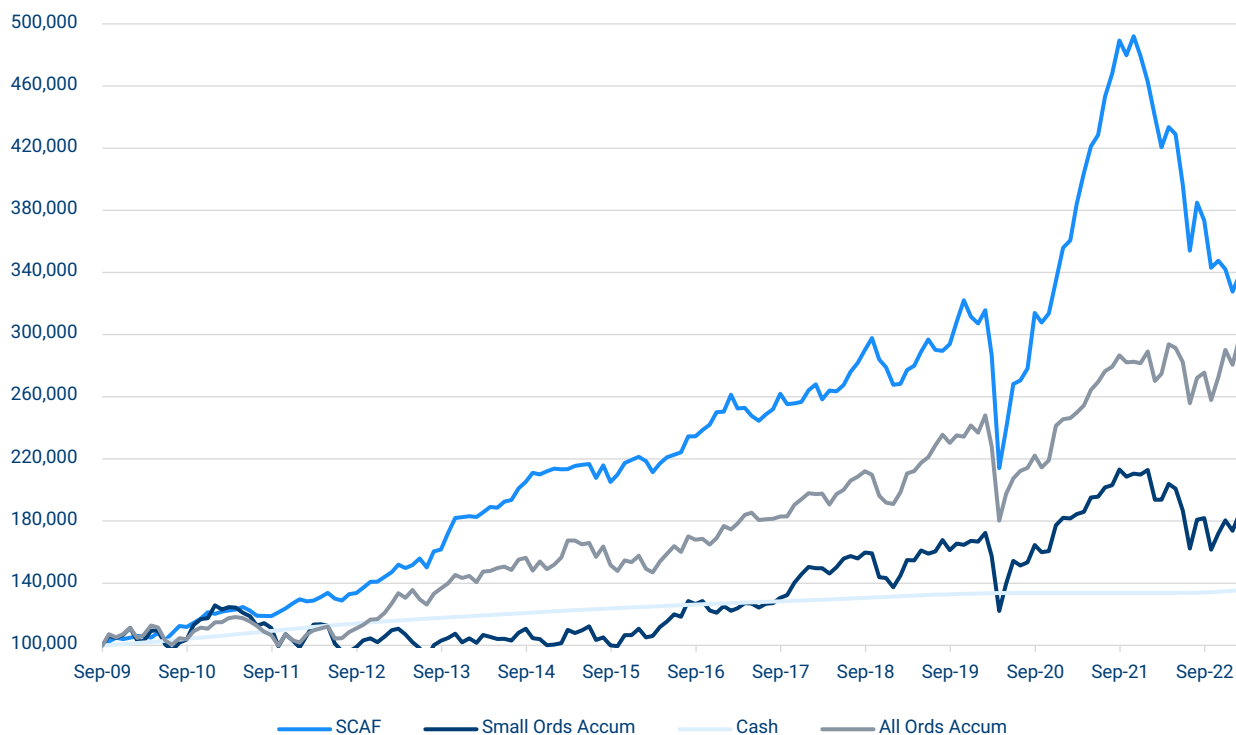
A number of the companies we hold are in the midst of turnarounds. In all but one, we've had a hand in fostering board and management changes. These include Fleetwood Ltd (FWD), A2B Australia Ltd (A2B), IDT Australia Ltd (IDT) and Midway Ltd (MWY). By way of example, we expect A2B to report operational and financial improvements and to highlight the opportunity for capital management with its full year result later in the year. All these companies are asset-rich, have little-to-no debt and some even have substantial net cash positions. They're each at various stages of their turnaround processes, however with new boards and management teams, we are optimistic of their prospects. Unfortunately, over the past 6-12 months, their share price performances have been largely dismal (with the exception of MWY).

The share prices of companies undergoing positive changes rarely improve in straight lines due to uncertainty and a lack of investor confidence. Markets tend to use recent history as the basis for the direction of their expectations. Hence poor historic performance is expected to persist (just as with the contrary). With market turmoil, these tendencies are simply exacerbated, despite any facts to the contrary.

We will continue to objectively assess the prospects of our companies, as opposed to being influenced by share price movements. We believe this gives us the best chance of delivering satisfactory long-term returns for our investors.

We have identified some new investment opportunities, which we've begun accumulating. We expect to report on these in future.

GROWTH OF INVESTMENT SINCE INCEPTION



PORTFOLIO EXPOSURES

Net Exposure	96%
Net Cash	4%
Long Positions	27
Short Positions	0

TOP 5 POSITIONS

COG Financial Services	19%
Fleetwood	12%
Coventry Group	8%
A2B	8%
BCI Minerals	8%

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

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