

MONTHLY REPORT

Sandon Capital Activist Fund (SCAF)

Entry Price Exit Price
\$2.0064 \$1.9944

DECEMBER 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	8.6%	21.9%	3.9%	8.3%	10.1%	299.5%
S&P/ASX 200 Accumulation	7.3%	12.4%	9.2%	10.3%	8.3%	212.8%
Small Ordinaries Accumulation	7.2%	7.8%	0.9%	6.4%	4.5%	87.3%
Cash	0.4%	3.8%	1.6%	1.3%	2.4%	40.2%

Note: Inception date is Sep 2009. Entry/Exit prices are for Lead Series Units. SCAF returns are net of all fees and expenses and are calculated for Lead Series units. Index and cash returns sourced from Bloomberg. Investors should refer to their personalised statements for the performance of their investment.

FUND COMMENTARY

The Fund return for December 2023 was 8.6%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 10.1% per annum. Cash levels ended the month at approximately 6%.

Merger and Acquisition (M&A) activity at the smaller end of the market roared back to life during December. Our portfolio benefited from this as well as other positive stock specific announcements. The largest contributors were A2B Australia Ltd (A2B) (+2.8%), Coventry Group Ltd (CYG) (+1.8%), Fleetwood Ltd (FWD) (+1.6%), Magellan Financial Group Ltd (MFG) (+1.3%) and Link Administration Holdings (LNK) (+0.7%). There were no detractors of note for the month.

A2B had an extraordinarily busy month in December announcing the settlement of its remaining properties; Downing Street, Oakleigh for \$8 million and O'Riordan Street, Alexandria for \$78 million. Following the sale of these properties, the company announced a larger than expected fully franked dividend of 60 cents per share to be paid in late January. The positive surprises didn't end there. On 22 December 2023, A2B announced it had entered into a scheme of arrangement with Singapore's ComfortDelGro. If approved, shareholders will receive a total of \$2.05, comprising \$1.45 per share in scheme consideration and the aforementioned fully franked special dividend of \$0.60 per share.

When we first invested in A2B, its market capitalisation was approximately \$110 million and the company was committed to a strategy that we believed was eroding the value of the business. Our campaign to change the Board, including the appointment of Mark Bayliss as Executive Chairman, has led to a significant change in fortunes for A2B and its shareholders. Mark and his team have executed one of the most successful corporate resurrections we have witnessed – non-core property assets have been sold, the core taxi despatch and payments businesses have been successfully turned around, and these efforts have been capped off with the announcements of the large special dividend and the scheme implementation agreement with ComfortDelGro. The company today has a market capitalisation of more than \$260 million (prior to the payment of the special dividend). In less than three years, more than \$150 million of shareholder value has been created.

CYG provided a 1HFY24 trading update, with the encouraging trends disclosed at the AGM in October accelerating into the end of the calendar year. 1HFY24 sales are expected to be \$185.5 million, up ~5.5% on the prior corresponding period (pcp). More importantly, 1HFY24 EBITDA is expected to be \$9.8 million, up ~18.0% on the pcp. The initiatives to grow EBITDA margin to 10% in the medium term that were implemented early in the financial year gained momentum in the December quarter with 2QFY24 EBITDA forecast to be up ~28.5% on the pcp. Demand continues to remain solid in the company's core end markets (mining and resources, infrastructure, commercial construction and industrial) and the Enterprise Resource Planning (ERP) upgrade continues to track to schedule and budget. CYG operates in large, fragmented markets and has very modest market shares. We expect the strong top line growth that has been demonstrated over the past 5-6 years to continue into the medium term, with operating leverage and margin expansion initiatives translating to significantly faster earnings growth.

MFG announced that strong underlying markets in November had resulted in a 2.6% increase in funds under management (FUM). This was only the second increase in FUM in the past 20 months and the first since January 2023. Also during the month, MFG announced a resolution to the liability related to options over closed class units in Magellan Global Fund (ASX: MGF). MFG will purchase up to 750 million MGF options on market at a price of 10 cents per option. This coincided with the responsible entity (RE) of MGF deciding to proceed with a conversion of the closed class units to open class units, thus permanently addressing the discount to net asset value (NAV) that MGF has persistently traded at. Whilst the resolution of MGF and its options will cost more than we expected, it will also bring an end to a saga that has tarnished the MFG brand for a number of years now. MFG Executive Chairman, Andrew Formica, has moved expeditiously to address a number of legacy issues. With these now largely in the rear-view mirror, we look forward to him turning his attention towards capital management in the first half of 2024.

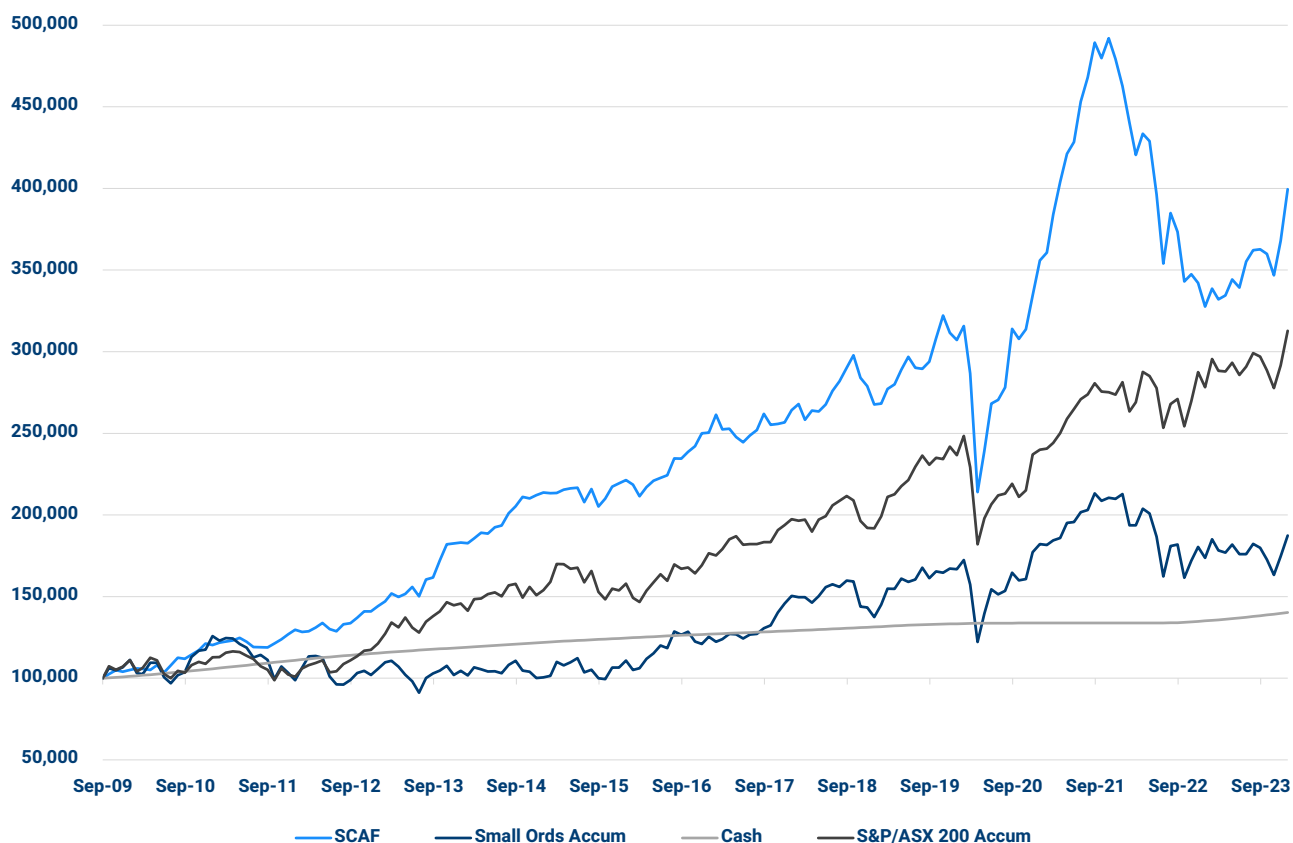
LNK announced that it had entered into a scheme implementation deed with Japanese company, Mitsubishi UFJ Financial Group (Mitsubishi), under which Mitsubishi will acquire LNK for total consideration of \$2.26 per share. The scheme is unanimously recommended by LNK's board. There has been significant corporate interest in LNK over the past few years, however all that interest has amounted to nought. We expect the likelihood of the Mitsubishi scheme proceeding to be high, however also believe there is some chance that another bidder enters the fray for the company.

Having farewelled 2023, our minds turn to 2024 and beyond. As our regular readers know, we eschew macro predictions. That said, we gladly make observations. 2024 is likely to be an interesting year. Investors will likely continue to focus on interest rates and inflation. Many expect that both might be heading down. We don't know, but we think that a little more stability, and more normalised levels, in respect of interest rates are generally good things. What we do know is that financial markets have a well-established propensity to over-shoot, both up and down.

Time Magazine recently described 2024 as the "Ultimate Election Year". Nearly half the world's population will vote in elections this year. Notable potentially influential events include the presidential elections in the US, Russia, Taiwan and Indonesia, as well as parliamentary elections in the UK and the EU. We don't know how any of these elections will turn out, but we expect they might contribute to additional uncertainty and volatility.

No matter what the outcome of these events, our investment approach, now in its 15th year of application, will remain unchanged. We will continue to focus on companies within the portfolio to improve and extract value. Aside from this, the search for new investment opportunities remains an ongoing and never-ending task. Given the volatility seen in capital markets over the past few years and the severe underperformance of small and micro-cap equities, the opportunity set is fertile. We look forward to reporting on the portfolio as 2024 unfolds.

GROWTH OF INVESTMENT SINCE INCEPTION (\$)



PORTFOLIO EXPOSURES

Net Exposure	94%
Net Cash	6%
Long Positions	22
Short Positions	0

TOP 5 POSITIONS

COG Financial Services	17%
Fleetwood	14%
A2B	10%
Global Data Centre Group	10%
Coventry Group	10%

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 Managed Investment Funds Limited
Fund Auditor	Crowe Australasia
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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