

# SANDON CAPITAL

## Sandon Capital Activist Fund

March 2020 Monthly Report

Entry/Exit Prices: \$1.1996/\$1.1900

### 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	-25.4%	-22.8%	-5.4%	-0.1%	7.4%	7.5%	11.8%	114.0%
S&P/ASX 200 Accum.	-20.7%	-14.4%	-0.6%	1.4%	4.9%	5.8%	13.5%	82.0%
Small Ordinaries Accum.	-22.4%	-21.0%	-1.3%	2.5%	1.1%	1.9%	16.1%	22.2%
Cash	0.03%	1.17%	1.57%	1.72%	2.72%	2.77%	4.24%	33.57%

### Portfolio Exposures

Net Exposure	97%	Long Positions	32
Net Cash	3%	Short Positions	2

### Fund Commentary

The Fund return for February 2020 was -25.4%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 7.5% per annum. Cash levels ended the month at approximately 3%.

The portfolio was widely impacted by falling markets during the month. March saw global markets fall significantly harder and faster than during the GFC as countries across the world began to grapple with the COVID-19 Pandemic. Major economies have restricted social and economic interactions to varying degrees. Those responding soonest and with the most stringent social distancing regimes would now appear to be those with less significant public health consequences. The economic impact in most cases is enormous. Australia's public health responses seem to be among the best so far, as measured by infection rates and fatalities. Federal and state governments appear to have taken a "whatever it takes" approach to mitigating the economic fallout from public health and safety response. Federal stimulus and mitigation measures announced so far total \$300 billion over the next 3-4 years. Bulwarks of government responses include a temporary doubling of the job-seeker allowance for the unemployed and the establishment of a "job-keeper" allowance to assist employers to keep staff employed. There are also packages to encourage business investment and debt relief measures.

The share prices of the companies we invest in have generally fallen by more than the market. As is commonplace in market turmoil, there is a flight to quality and size, with no regard for value. Investors will tend to prefer larger, more liquid companies over smaller, less liquid ones. Today, smaller companies are trading at larger discounts to their larger peers than was seen during the depths of the GFC. We have been net buyers of stocks during the month.

Consolidated Operations Group Limited (COG) was the largest detractor during the month (~-5.1%), after its share price fell nearly 42%. We think COG's decline was exacerbated by its protracted tussle with CML Group Ltd (CGR) and Scottish Pacific. On the last day of the month, CGR withdrew its Takeover's Panel application against COG. The dispute was resolved when COG announced that it would no longer seek to acquire CGR. If the Scottish Pacific proposal is successful, COG will receive total consideration of 60 cents per share. This would deliver COG an additional \$22.6 million in cash. We estimate COG would have a war chest of cash in excess of \$32 million to deploy at post COVID-19 prices.

Operationally, COG has announced it is scaling back its direct lending while there is uncertainty in a deteriorating economic environment. We expect their focus will be on ensuring lease payments are made and recoveries maximised. Importantly, the loans and debentures that fund the leased assets have recourse to the leased assets and not COG itself.

COG has also announced that its finance broking and aggregation business is expected to benefit from the government stimulus and RBA funding packages aimed at small and medium size businesses.

We acquired shares in CGR last year in lieu of exercising the Fund's entitlements in the COG capital-raising. At the time, buying CGR provided a discounted entry into COG shares. We had publicly backed the COG proposal and were slated to campaign and vote against the Scottish Pacific Proposal. It now looks like this will be a futile effort, though in failure, we will book profits on those CGR shares if the Scottish Pacific proposal is successful. With COG's change of heart, we expect it will pass. If so, this will be a very profitable second prize. Heads you win, tails you win – we like those kinds of investments. Disposing of CGR will add approximately ~4% to cash levels.

Onemarket Limited (OMN), which went into voluntary liquidation in late 2019 was due to make an initial distribution by the end of March 2020. This distribution was estimated to be 88-94 cents per share. OMN shareholders were recently advised that the initial distribution would be delayed until late May 2020. The silver lining to this delay was that the USD proceeds for the initial distribution were converted to AUD at an opportune time, and the initial distribution estimate was revised to \$1.08 to \$1.11 per share. We think this increase is well worth the wait. Once received the Fund's cash levels will be bolstered by >13%.

We made an informed decision to hold onto almost all of our investments, based on our assessments of long term value. The update we sent to unitholders in late March details the underlying thesis for our top positions in a present and post COVID-19 world. Whilst the world is changing rapidly, we remain comfortable with the financial position of our investments and the opportunities that lay ahead of them. A number of investments are already well off their intra-month lows, and while we expect continued volatility in share prices, our key focus remains avoiding the permanent loss of capital.

During the last few years, we've heard many investors quote Baron Rothschild, saying they want to *"buy when there is blood in the streets..."* What most forget or don't know, is the last part of his quote, which is *"...even when the blood is your own."* This is one of those times where the full quip bears remembering.

As >15% cash is received from the aforementioned investments, we will continue to deploy funds across existing and new investments that we consider attractive at current prices. We continue to eschew predictions on when the pandemic will be overcome and when financial market will begin to see a rebound in economic activity. Instead, we plan to seize opportunities over the next 6 months or so, knowing we will likely begin to buy some investments too soon, that some will have already bottomed out, and that we will not time everything to perfection. We remain confident that in the medium to longer term, this crisis will provide some incredible opportunities.

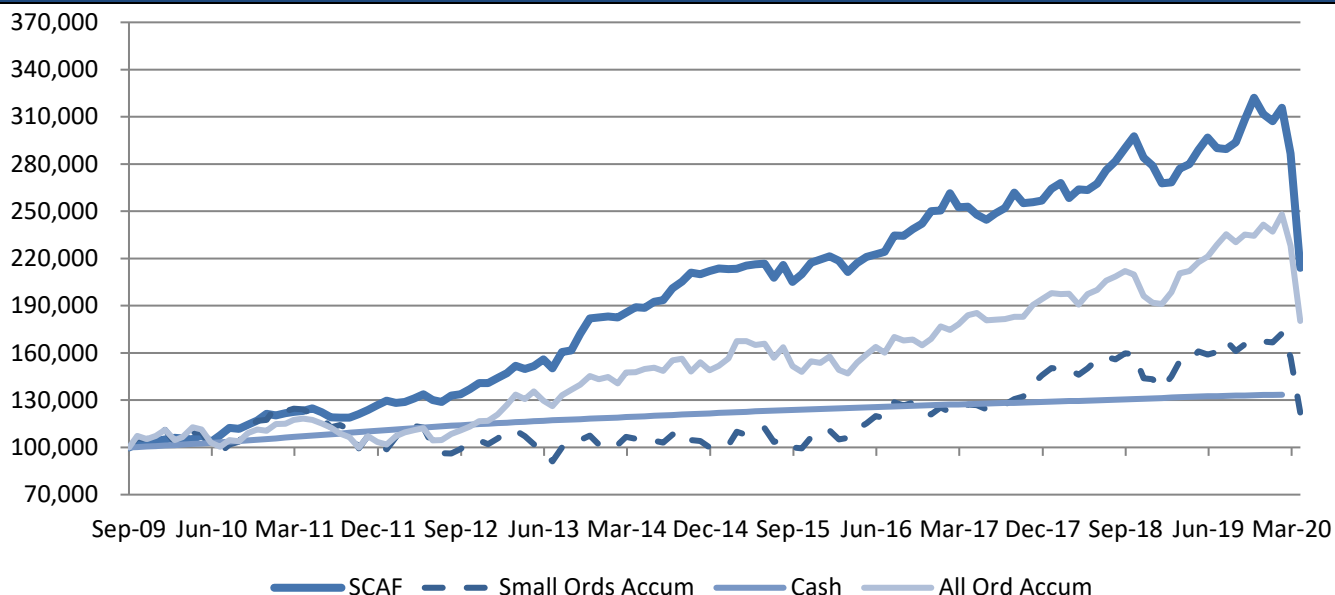
## Fund Description

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.

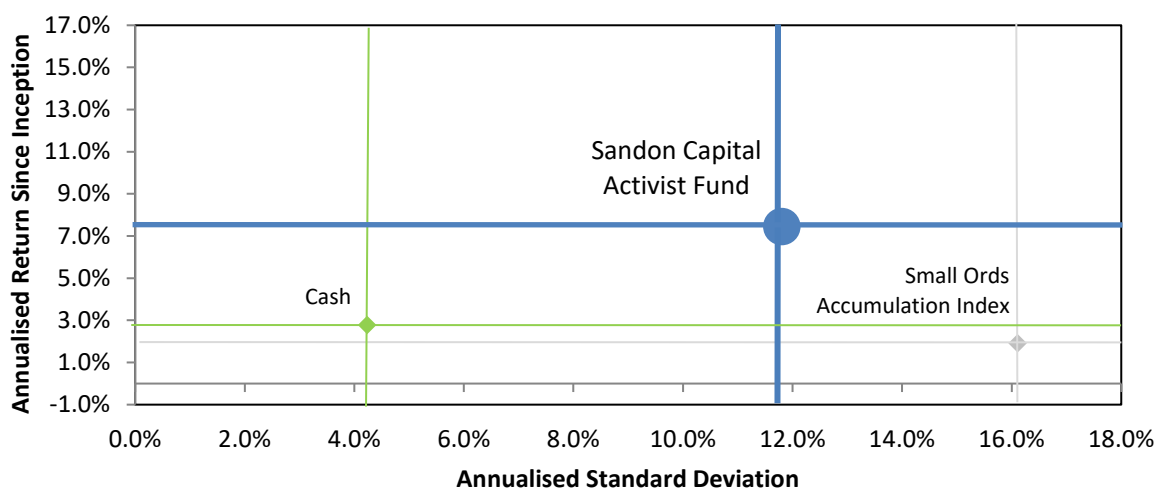
## Fund Details

Structure	Wholesale unit trust	Minimum Investment	\$250,000 (or as agreed with trustee)
Trustee	Fundhost Ltd	Trustee Fees	0.21%
Custodian	National Australia Bank	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	<a href="http://www.sandoncapital.com.au">www.sandoncapital.com.au</a>	Buy/Sell Spread	±0.40%
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



Source for all charts: Sandon Capital, Bloomberg

Note: SCAF returns are net of all fees and expenses. Fund inception is 4 September 2009.

Fundhost Limited (ABN 69 092 517 087) (AFSL 233045) ("Fundhost") as trustee of, and issuer of units in, the Sandon Capital Activist Fund ("Fund"). Sandon Capital Pty Limited (ABN 98 130 853 691) (AFSL 331 663) ("Sandon Capital") is the Investment Manager of the Fund.

Fund performance is after fees and assumes distributions are reinvested. Past performance is not a reliable guide to future performance. This information has been prepared without taking into account your investment objectives, financial situation, or needs. Before making an investment decision you should consider the appropriateness of the information having regard to these matters. Before you invest it is important that you read and understand the terms set out in the Sandon Capital Activist Fund Information Memorandum ("IM") dated July 2019. In particular, it is important that you understand the risks associated with an investment in the Fund set out on page 5 of the IM.

Information provided by the Investment Manager are views of the Investment Manager only and can be subject to change. While information in this report is given in good faith and is believed to be accurate, Fundhost and Sandon Capital give no warranty as to the reliability or accuracy of the information, nor accept any responsibility for any errors or omissions of third parties. To the extent permitted by law, neither Fundhost nor Sandon Capital, including their employees, consultants, advisors, officers or authorised representatives are liable for any loss or damage arising as a result of reliance placed on the contents of this report.