SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 31 December 2020

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 31 December 2020 were:

NTA before tax	**$0.9267**	**+2.2%**
Deferred tax asset	**$0.0073**	
Deferred tax liability on unrealised income and gains	**($0.0307)**	
NTA after tax	**$0.9034**	**+1.6%**

Investment Performance

Gross Performance to 31 December 2020[1]	1 Month	Financial YTD	Since inception[2]
SNC	3.1%	30.9%	9.5%
All Ordinaries Accumulation Index	1.8%	15.7%	8.6%
Outperformance[3]	**+1.3%**	**+15.2%**	**+0.9%**

1. The SNC and index returns are before all fees and expenses and before any taxes, except that SNC returns are after incurred brokerage expenses. Dividends paid during the period are included when calculating SNC's gross investment performance.
2. Annualised.
3. Note figures may not tally due to rounding.

Dividends

SNC has declared and paid 39.0 cents per share of fully franked dividends since listing in December 2013. The profits reserve is 15.6 cents per share and there are 10.0 cents per share of franking credits, both after the payment of the 12 November dividend.

The Board anticipates paying an interim dividend for the first half of FY21 of a similar amount, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice.

The table below shows SNC's recent dividend history.

Ex-date	Dividend Amount	Franking	Corporate Tax Rate	Type
21 October 2020	2.5 cps	100%	26.0%	Final
5 May 2020	3.5 cps	100%	27.5%	Interim
21 October 2019	3.5 cps	100%	27.5%	Final
16 May 2019	3.5 cps	100%	27.5%	Interim
23 October 2018	3.5 cps	100%	27.5%	Final
8 May 2018	3.5 cps	100%	27.5%	Interim
23 October 2017	3.5 cps	100%	27.5%	Final
18 May 2017	3.5 cps	100%	30.0%	Interim
21 October 2016	3.0 cps	100%	30.0%	Final
18 April 2016	2.0 cps	100%	30.0%	Interim

Sandon Capital Investments Limited

ASX Code	**SNC**
Listed	**23 Dec 2013**
Gross assets*	**$124.8m**
Market capitalisation	**$85.8m**
NTA before tax	**$0.9267**
Share price	**$0.7800**
Shares on issue	**109,939,843**
Options on issue	**nil**
Fully franked dividends	**$0.025**
Dividend yield (annualised)	**6.4%**
Profits reserve (per share)	**15.6 cps**
Franking (per share)	**10.0 cps**

*includes the face value of Mercantile 8% unsecured notes.

Company overview

Sandon Capital Investments Limited is a specialist 'Activist' listed investment company, managed by Sandon Capital. Sandon Capital devises and implements activist shareholder strategies that seek to unlock value inherent in securities held in our investment portfolios.

SNC provides investors with exposure to a portfolio of Australian companies that are typically not available to traditional investors. Through active engagement with the target company, Sandon Capital seeks to release the embedded value for shareholders. Target companies are likely to be in the small to mid cap market segment.

Sandon Capital has successfully employed its Activist investment strategy since September 2009. The wholesale Sandon Capital Activist Fund's investment performance since inception is 11.9% p.a. (after all fees and expenses).

Investment Objectives

- To provide absolute positive investment performance over the medium to long term, ensuring capital preservation, while providing capital growth.
- To provide an investment strategy that few investors have the capacity to implement themselves.
- To provide shareholders with a growing stream of fully franked dividends.

Portfolio commentary

The Portfolio was up 3.1% for the month, on a gross basis, before all fees and expenses, compared to an increase of 1.8% for the All Ordinaries Accumulation Index. The 2020 calendar year gross return was 6.7%, compared to an increase of 3.6% for the All Ordinaries Accumulation Index.

Whilst the full year result was satisfactory, it masks the incredible volatility due to the COVID-19 pandemic. In February and March 2020, the cumulative decline of the portfolio was more than 27%, our largest ever drawdown. We wrote to investors in an ASX release dated 25 March 2020, in the midst of the COVID-19 pandemic induced market turmoil, explaining how we were dealing with the portfolio. In summary, we exited some small positions (comprising <1% of the portfolio) where the prospects were dim. We also purchased securities in a number of companies that were trading at a fraction of their asset values. Aside from this, very little trading was undertaken.

We reviewed our investments and made assessments of their medium to long term prospects as well as what short term risks they might face. We did not engage in what we would consider speculative changes to the portfolio to either avoid or profit from any future developments we could not guarantee. We stuck to our tried and tested investing principles, and these paid off well.

The long-term nature of SNC's capital also contributed to this performance, as we were not forced to sell to meet redemptions during the deepest, darkest days of turmoil. We thank you, our shareholders, for your patience and commitment.

Key contributors to December's returns included City Chic Collective Ltd (CCX), BCI Minerals Ltd (BCI), Iluka Ltd (ILU) and AIMS Property Securities Fund (APW), partly offset by Spectra Systems Corporation (SPSY LN) and Australian Silica Quartz Ltd (ASQ).

CCX, whose share price has performed strongly since late March, announced it had acquired the Evans brand, and eCommerce and wholesale businesses from Arcadia Group for A$41m. Evans is a UK-based retailer of women's plus-size clothing with a longstanding customer base and strong market position. In July 2020, CCX raised more than $110 million in new equity to fund potential acquisitions. The catalyst for the capital raising was the prospect of a second US acquisition, the e-commerce assets of Catherine's. In mid-September, CCX announced it had been outbid for that business, a decision we saw as demonstrating a disciplined approach to acquisitions.

Some others had different views and the CCX share price fell, despite otherwise good results and positive announcements emanating from the company. We saw CCX as disciplined and well-placed with a solid war-chest. That war-chest has been put to good use in the acquisition of Evans. Following the acquisition and investment in working capital, CCX has in excess of $70m in cash, plus undrawn debt facilities totalling $40 million. We support the board and management to deploy this capital as and when they see fit. To date, they have demonstrated superb capital allocation skills.

BCI continued to meet milestones on the Mardie salt and potash project with the announcement that it had obtained approval for a $450m loan from the Northern Australia Infrastructure Facility (NAIF) program. The NAIF loan is an integral funding component of the Mardi project and also an important precursor to BCI receiving bank debt and equity to fully finance the project.

Following the $48m equity raising announced in September 2020, early-stage construction works have commenced at Mardi and long lead time capital equipment items have been ordered to accelerate development of the project. We expect bank debt terms to be agreed in the first half of 2021, which will be followed by the final investment decision and equity funding around the middle of the year. Whilst there is a relatively long lead time until the first salt shipment in 2024, we are confident that the high-quality management team at BCI and strong projected economics at the Mardi project will deliver sound long term returns for shareholders.

ILU provided an update at a Goldman Sachs conference on the burgeoning opportunity that lies ahead in the rare earths space. Whilst traditionally a mineral sands producer, ILU also produces rare earth bearing monazite as a co-product at some of its operations. Prior to the 1990's, this product was sold to overseas customers. Since then, it has been stored in a mining void at the company's Eneabba site and carried on the balance sheet as a (rehabilitation) liability. With the strong increase in demand and pricing for rare earths, this liability is now an asset.

ILU re-entered the rare earths market earlier this year through the low-risk phase 1 development of the monazite-rich stockpile at Eneabba. Phase 2 of the project involves further upgrading of the monazite to a grade of 90%, as well as the production of small amounts of zircon and ilmenite. The low capital cost and 10-year reserve base of the Eneabba rare earths deposit look to be important drivers of value for ILU for the next decade. We expect to hear further news on the rare earths opportunity at the company's Wimmera deposit over the next 12-18 months as feasibility studies are carried out.

We remain somewhat perplexed at the speed and extent of financial market recovery. We are keeping a close eye on whether business activity can meet expectations. The Fund's exposure to what we have described as the industrial economy would seem to offer better, more sustainable prospects than the wider economy. We continue to accumulate positions in several new positions as well as adding to existing ones. We are excited by the prospects for a number of our holdings in 2021. Many of them have strong post-pandemic tailwinds and yet remain moderately priced, with solid prospects for continued share price appreciation during 2021. We look forward to reporting to you on their progress.

Investment Portfolio

	December 2020
Listed Australian Equities	75%
Listed International Equities	15%
Unlisted investments	8%
Cash or Cash Equivalents	2%

Contact

If you have any questions regarding the Company or its investments, please call Gabriel Radzyminski on 02 8014 1188. If you have questions regarding your shareholding, please contact Link, whose details appear below.

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