SANDON CAPITAL

Sandon Capital Activist Fund

February 2021 Monthly Report

Entry/Exit Prices: $2.1528/$2.1356

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	6.5%	34.0%	14.1%	12.7%	12.1%	12.4%	13.1%	284.0%
S&P/ASX 200 Accum.	1.5%	6.5%	7.4%	10.7%	7.8%	8.1%	13.6%	144.2%
Small Ordinaries Accum.	1.5%	17.2%	7.2%	11.7%	4.0%	5.5%	16.7%	84.4%
Cash	0.0%	0.0%	1.1%	1.4%	2.3%	2.6%	4.7%	33.8%

Portfolio Exposures

Net Exposure	99%	Long Positions	31
Net Cash	1%	Short Positions	0

Fund Commentary

The Fund return for February 2021 was +6.5%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 12.4% per annum. Cash levels ended the month at approximately 1%.

Key contributors to the month's returns included Fleetwood Corporation Ltd (FWD) (+3.2%), Iluka Resources Ltd (ILU) (+0.7%), COG Financial Services Ltd (COG) (+0.7%), Tabcorp Holdings Ltd (TAH) (+0.6%) and City Chic Collective Ltd (CCX) (+0.5%). Pleasingly, there were very few detractors.

FWD upgraded its earnings guidance early in the month ahead of its half year report on 25 February. Overall, the company reported that it had delivered a "*solid performance across the … three operating divisions.*" Revenues were up 5%, there was a substantial increase in net profits and a 6 cents per share dividend was announced. In future the company expects to pay out 100% of net profits as dividends. The release of the half year report marked the last phase of the board and management changes announced last year. We welcome the appointment of a new Chairman, Mr John Klepec. For Sandon Capital, this brings an end to a campaign for change we started several years ago.

There were some key messages from the new Board, including that management remains "*focused on revenue growth, sustainably improving margins, increasing utilisation and reducing overheads to improve earnings.*" As we have long argued, these are much needed improvements. FWD is now better placed than at any time in recent years to capitalise on the opportunities in manufactured accommodation and deliver sustainable results into future. Even with the recent rally in the share price, we consider FWD to be undervalued. Now though, it has the potential to realise that value itself. We estimate FWD's value today at between $3.40 and $4.50 under various scenarios, not including the ~20 cents per share of franking credits it has available.

ILU reported a reasonable result with a solid outlook for both demand and price for its mineral sands products. A $70/t (~5.4%) price increase for zircon from 1 April was announced. The major event during the half year was the demerger of the Mining Area C royalty, creating Deterra Royalties Ltd. Management provided further information on its pipeline of growth projects in the mineral sands business, however we believe more detail should be provided to help the market better understand the value that could be created should these projects eventually move into production. This will help to address the concerns of some investors regarding ILU's growth prospects. Continued global economic recovery augurs well for ILU's short-to-medium term prospects.

TAH reported an improved result for the half year with its Lotteries business again being the standout. Any doubts shareholders might have had about the strength and robustness of that business are well and truly put to rest. The company advised, after unconfirmed press reports, that it had received a number of unsolicited approaches in respect of potential transactions involving its Wagering and Media (W&M) business. Clearly the ugly duckling, W&M is nevertheless a valuable business. Fire sale buyers need not approach.

In our opinion, these reported approaches highlight the logic in TAH separating its two main businesses. Perhaps this is best achieved by a sale of the Wagering and Media business, provided the after-tax proceeds reflect the strategic value of the business and the turnaround opportunity that would be available to an acquirer. In the meantime, we believe the Board should be considering a demerger. Importantly, a demerger would not preclude any future sale of W&M. If a sale is being considered now, we believe such a transaction should be compared against what TAH would be worth under a demerger scenario. We look forward to further announcements by the company.

Like FWD, COG had upgraded expectations ahead of the result announcement. Even stripping out the reversal of prior provisions, the result was good. COG is well positioned to benefit organically from government stimulus measure and the economic recovery. We expect broker acquisitions will continue, which will provide further growth in revenues, all other things being equal. Expanding the product suite to including insurance and diversifying funding sources through Westlawn should benefit existing brokers and their clients, as well as making COG attractive to brokers being acquired. We expect that as time goes on, the growth potential of COG will become increasingly evident, even to the casual observer.

IDT Australia Ltd (IDT) reported its results and provided an investor update. The financial results were uninspiring. Far more inspiring however, was IDT reiterating that it had made a formal submission to the Australian Government detailing its COVID-19 vaccine manufacturing capabilities. The management presentation released to the ASX also highlighted IDT's Sovereign Manufacturing Initiative. This is a broad and strategically significant issue. The pandemic has shone a light on the fragility of most countries' supply chains. Medicines and pharmaceuticals are no exception to this. IDT has actively participated to highlight these risks and is an advocate for developing a sovereign manufacturing capacity. We believe this is an important, yet overlooked issue facing Australia and IDT can benefit if the government takes appropriate steps to address the issue.

We continue to accumulate new positions. 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 in future newsletters.

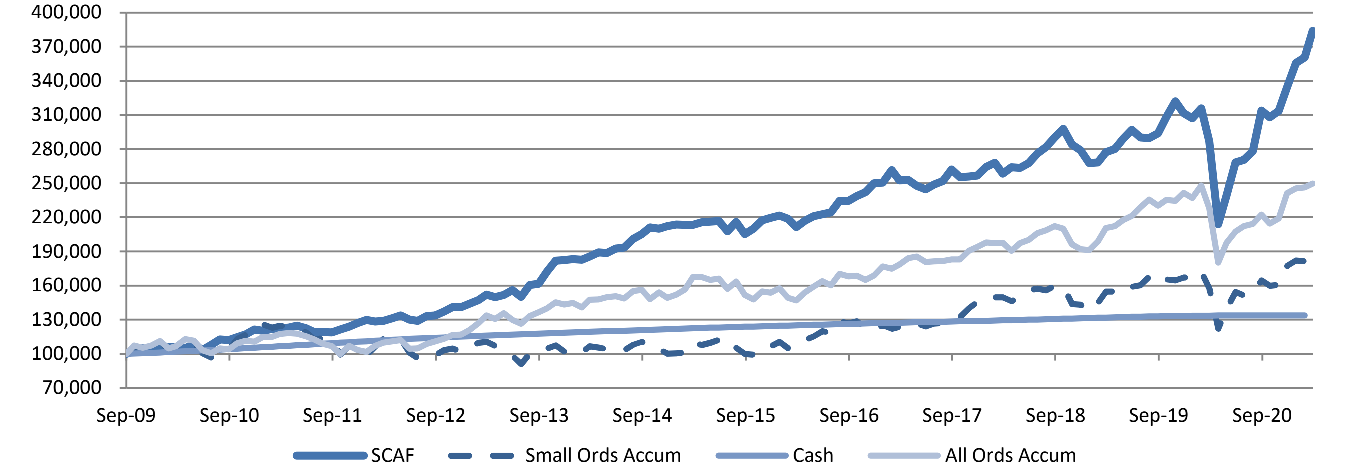
Fund Description

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.

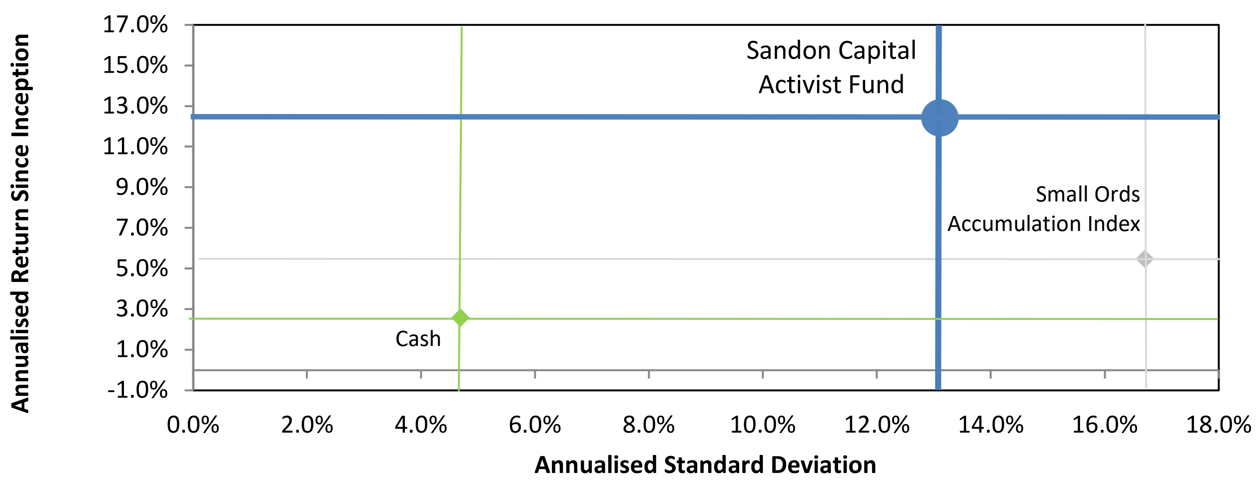
Fund Details

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	www.sandoncapital.com.au	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.