SANDON CAPITAL

Sandon Capital Activist Fund

June 2021 Monthly Report

Entry/Exit Prices: $2.5379/$2.5227

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	5.8%	67.5%	18.0%	15.1%	14.3%	13.6%	13.1%	353.2%
S&P/ASX 200 Accum.	2.3%	27.8%	9.6%	11.2%	9.3%	8.8%	13.4%	170.9%
Small Ordinaries Accum.	3.1%	33.2%	8.6%	11.2%	6.0%	6.1%	16.5%	101.7%
Cash	0.0%	0.0%	0.9%	1.2%	2.1%	2.5%	4.9%	33.8%

Portfolio Exposures

Net Exposure	96%	Long Positions	31
Net Cash	4%	Short Positions	0

Fund Commentary

The Fund return for June 2021 was +5.8%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 13.6% per annum. Cash levels ended the month at approximately 4%.

The fiscal year to 30 June 2021 was one of exceptional returns. The Fund's nadir was March 2020 as the COVID-19 pandemic took hold around the world. The year to 30 June 2020 was the first time ever the Fund reported a loss. So, one could be forgiven for thinking that 2021 fiscal year return simply reflects the rebound in equity markets. In fact, it is a result borne of the last three to four years of work on key investments. What we see in these portfolio positions are the fruits of several years' worth of effort by us (and in turn the companies themselves) to foster changes we believed would benefit the companies and their shareholders. Iluka Resources Ltd (ILU)/Deterra Royalties Ltd (DRR) and Fleetwood Ltd (FWD) are two prime examples.

If we look at the portfolio today compared to two years ago, our core holdings remain largely the same, albeit their prices are generally higher today than before. The Fund is 41% higher than its pre-pandemic high in Oct 2019.

We've given some thought to how we achieved this. Looking back, our portfolio activity could be described, in Warren Buffet's words, as "*lethargy bordering on sloth*". However, a lack of portfolio activity should not be confused with lack of work. In fact, we have been very busy. Our efforts have been focused on encouraging changes and improvements in some companies, sometimes in the face of clear and direct opposition from incumbent management teams and boards, while in others, we worked to elucidate the value proposition.

From a portfolio perspective before and during the pandemic, it meant that in most instances our work led us to conclude that changes to the portfolio were unnecessary. Perhaps another way of describing it is that we "*worked on*" rather than "*worked in*" the portfolio. This paraphrases the advice often given to small and medium business owners, which is to "*work on*" not "*in*" your business.

The companies we "*worked on*" are those that have given us our best returns. The operant conditioning arising from these returns will certainly inform our future activities.

We've also continued to find new opportunities to invest in. Big market dislocations have a habit of throwing such opportunities in your path. Boral Ltd (BLD), which we discuss below, is one such opportunity. You just have to be attuned and aware to seize them (and have enough spare cash). Looking back, there are a few of these we today we wish we'd been more aggressive in our purchases, but then again, hindsight is a wonderful thing. We'll write more about these as time goes on.

Key contributors to the month's returns included BCI Minerals Ltd (BCI) (~2.7%), City Chic Collective Ltd (CCX) (~1.7%) and ILU (~0.8%). There were few negative contributors this month.

BCI's share price continued to rise as interest in, and understanding of, the company increases. BCI has two drivers of value: 1) the development of the Mardie salt and potash project, and 2) a royalty from iron ore production from the Iron Valley mine. The Iron Valley royalty is reaping the rewards of the strong iron ore price, with earnings likely to exceed A$140 million annually while iron ore prices remain above US$200 per tonne. Even at lower prices, the earnings capacity of the royalty is strong. Mardie continues to achieve development milestones as it progresses to first shipments of salt and sulfate of potash in 2024/25.

There was no news from CCX during the month, though the filing of an IPO prospectus for a US competitor, Torrid, may have provided some insights as to the growth opportunity for plus-size fashion retailing in the US. In particular, the Torrid prospectus highlighted how the under-45 year old women's, plus sized consumer segment is underserved. According to the prospectus, the market is estimated to be growing at twice the rate of overall women's apparel market. This underscores the opportunity that exists for CCX and why we continue to hold this investment.

ILU sought to dampen speculation surrounding a potential sale of its troubled Sierra Rutile operation. Zircon prices continue to rise in the face of increased demand and falling supply. According to industry journals, Australian producers of zircon implemented a price increase of US$130/t (~9%) on 1 July. The increase in South Africa was even higher, with producers there reported to have implemented price increases of US$200/t (~15%). This comes on top of price increases of US$70/t (~5%) implemented on 1 April in both jurisdictions. A key reason for the weak supply in the market became apparent in early July when Rio Tinto's Richards Bay Minerals (RBM) ceased operations and declared *force majeure* following increased local violence, including the murder of the mine's general manager in May 2021. This takes a significant amount of zircon and high grade titanium dioxide feedstock (slag) supply from the world market. There have been a number of shorter term closures at RBM over the past few years as a result of industrial unrest. It would appear that these problems continue to persist.

There has also been an increased focus on rare earths as ILU starts to highlight the opportunities available to it in that sector.

During the month, the takeover battle for BLD continued. Press reports indicated an escalation in tensions between Seven Group (SVW) and BLD. Speculation had been building during the month whether SVW might raise its bid price for BLD. Late in the month it did, ultimately raising its bid price to $7.40 per share upon obtaining acceptances of 34.5%. Unlike some, we believe there is a real possibility that SVW may ultimately receive acceptances greater than 50%. Either way, with a shareholding above 40%, we fear the BLD Directors will have little appetite to refuse SVW's requests for increased board representation. Despite the current directors outlining a preferred model for governance structures, we expect SVW's influence over BLD will be significant, as would befit a shareholder owning such a stake.

While we consider $7.40 to be significantly below our valuation of BLD (and below the lower end of the independent expert's valuation of $8.25), sometimes pragmatism has to trump theoretical valuations. As SVW's holding in BLD increased to the point of significant influence, we reluctantly decided to sell.

We do not know how SVW's influence at BLD will manifest itself in future. We retain a keen interest in BLD and will monitor the situation as it develops. We may, like we did many years ago with Warrnambool Cheese and Butter Factory Company Holdings Ltd, take a plunge again after the takeover closes. We'd like to make any such decision with the benefits of some insights into how much influence, if not control, SVW will exercise. BLD was one of our key "pandemic special" purchases, so we bought well. While disappointed to be selling for less than we think BLD is worth, we are selling having made substantial gains (more than 100% in just over 12 months).

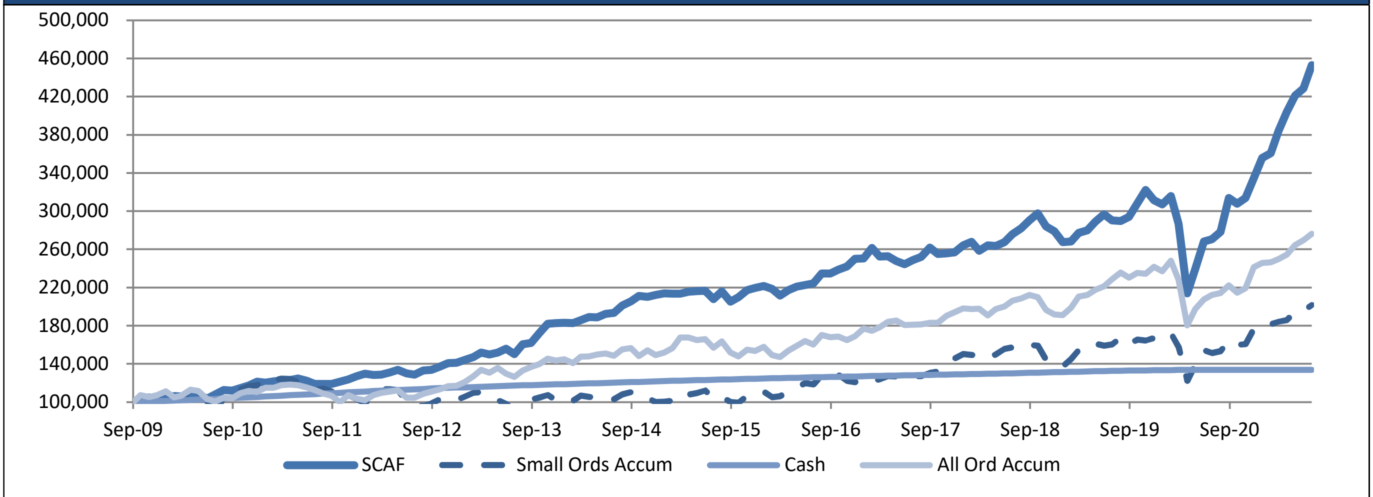
Fund Description

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.

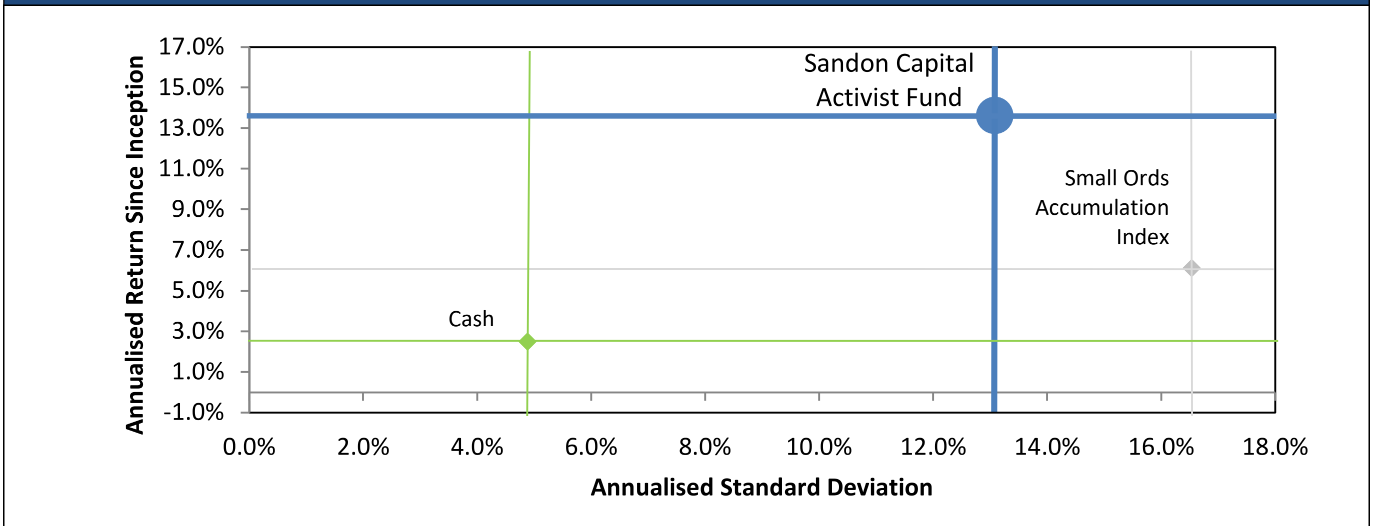
Fund Details

Structure	Wholesale unit trust	Minimum Investment	$250,000 (or as agreed with trustee)
Trustee	One Fund Services Ltd	Trustee Fees	0.21%
Custodian	One Investment Group	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.