

SANDON CAPITAL

Sandon Capital Activist Fund

January 2021 Monthly Report

Entry/Exit Prices: \$2.0218/\$2.0057

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	1.4%	14.3%	10.4%	10.5%	11.5%	11.9%	13.1%	260.6%
S&P/ASX 200 Accum.	0.3%	-3.1%	7.0%	10.0%	7.9%	8.0%	13.6%	140.7%
Small Ordinaries Accum.	-0.3%	5.4%	6.7%	11.6%	4.0%	5.4%	16.8%	81.6%
Cash	0.0%	0.3%	1.2%	1.4%	2.3%	2.6%	4.7%	33.8%

Portfolio Exposures

Net Exposure	97%	Long Positions	29
Net Cash	3%	Short Positions	0

Fund Commentary

The Fund return for January 2021 was +1.4%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 11.9% per annum. Cash levels ended the month at approximately 3%.

Key contributors to the month's returns included COG Financial Ltd (COG) (+1.9%) and Coventry Group Ltd (CYG) (+0.8%). These gains were partly offset by losses at City Chic Collective Ltd (CCX) (-0.7%), Deterra Royalties Ltd (DRR) (-0.4%) and Alterra Ltd (1AG) (-0.4%).

COG announced that it had achieved a profit after tax and before amortisation in the six months ended 31 December 2020 of \$10.1 million on an unaudited basis, representing a 140% increase. The announcement detailed higher brokerage margins in the Finance Broking & Aggregation segment and strong increases in the Lending segment. The CEO flagged the acquisition of more finance brokers and increased capabilities in insurance broking. We were pleased with this update and believe COG is well placed to benefit from the post-pandemic recovery and continue its growth trajectory.

CYG announced that its 1HFY21 sales were up 12.5% on the prior corresponding period (11.9% excluding acquisitions). The growth was driven by continued strong performance from the Fluid Systems business (sales +21.1%) and a continued turnaround in the Trade Distribution business (sales +7.5%). Importantly, the company disclosed that its net assets had increased by \$3.2m in 1HFY21, implying a net profit of the same amount during the period. This will exceed the profit generated in the entire FY20 year and is the best half year profit performance since 1HFY13. We remain encouraged by the outlook for CYG, expecting solid organic growth to be augmented by bolt-on acquisitions.

During the month we released a presentation with our thesis on Tabcorp Ltd (TAH), arguing that the Company should optimise its structure by demerging its world class Lotteries & Keno (**Lotteries**) business. The presentation can be found [here](#). In our 2016 campaign at Tatts Group Ltd (TTS), we made the case for the company to demerge its Lotteries business. At the time, we argued Lotteries was being undervalued by the market and was a globally unique business with infrastructure-like characteristics. Unfortunately, TTS was acquired by TAH, with great expectations for the enlarged entity.

Fast forward to today, and TAH has failed to deliver many of the promises of the merger and is in the midst of a changing of the guard. We believe the time has come for TAH to accept that Lotteries and Wagering are fundamentally different businesses facing challenges and opportunities that are incompatible. A demerger would ensure existing TAH shareholders have the choice to retain exposure to the Lotteries business.

In early February, TAH announced that it had received a number of unsolicited approaches and proposals in relation to a potential transaction involving its Wagering and Media business. We will discuss this in more detail in our February newsletter.

We continue to accumulate positions in 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 in future newsletters.

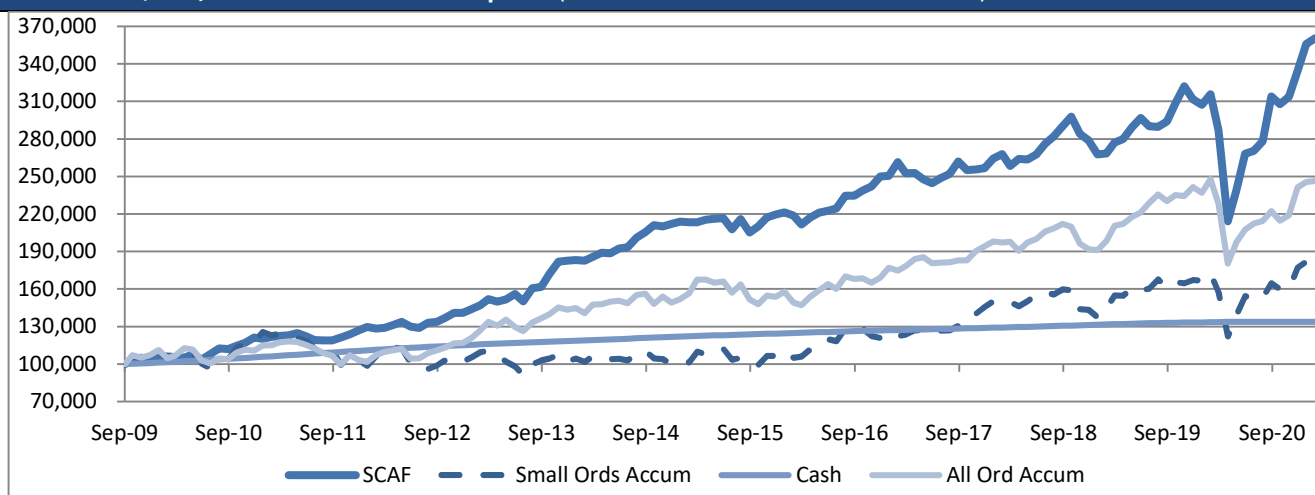
Fund Description

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.

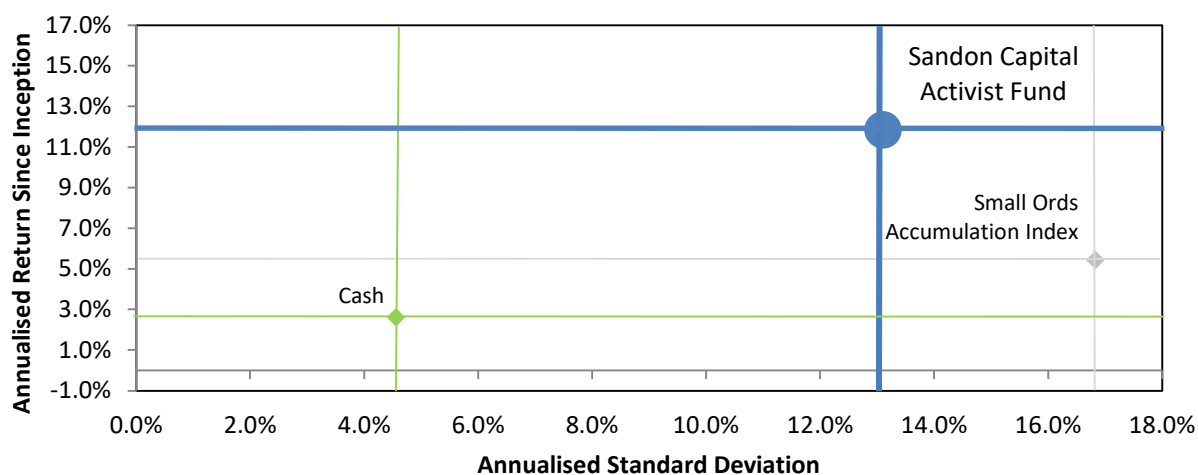
Fund Details

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.

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.

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