Sandon Capital

Sandon Capital Activist Fund

May 2021 Monthly Report

Entry/Exit Prices: $2.3996/$2.3852

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	1.7%	59.8%	17.0%	14.2%	13.1%	13.2%	13.1%	328.5%
S&P/ASX 200 Accum.	2.3%	28.2%	9.9%	10.8%	8.6%	8.6%	13.5%	164.9%
Small Ordinaries Accum.	0.3%	26.7%	7.9%	11.2%	4.9%	5.9%	16.6%	95.7%
Cash	0.0%	0.1%	1.0%	1.3%	2.2%	2.5%	4.8%	33.8%

Portfolio Exposures

Net Exposure	99%	Long Positions	30
Net Cash	1%	Short Positions	0

Fund Commentary

The Fund return for May 2021 was +1.7%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 13.2% per annum. Cash levels ended the month at approximately 1%.

Key contributors to the month's returns included BCI Minerals Ltd (BCI), COG Financial Services Ltd (COG) and Boral Ltd (BLD). These gains were partly offset by Fleetwood Ltd (FWD) and IDT Australia Ltd (IDT).

BCI had a strong month after releasing a presentation which detailed the significant leverage that their Iron Valley royalty has to the iron ore price. Since first production in 2014, the Iron Valley royalty has generated in excess of A$100m in EBITDA for BCI. This has occurred in an iron ore price environment materially lower than it is today. The Iron Valley royalty is different to traditional mining royalties in that the royalty percentage increases with an increasing iron ore price. At current prices (benchmark iron ore price >$200/t), the leverage is extraordinary, such that the royalty earnings in the next 12 months could be almost 40% greater than the **total** royalty earnings generated over the past 7 years.

BCI also continues to progress its Mardi salt & potash project. In recent months, the optimised feasibility study has been released, early stage works contracts have been awarded and progress conditions have been satisfied for the A$450m loan from the Northern Australia Infrastructure Facility (NAIF). We look forward to the project receiving final approvals (environmental, port, land access and mining leases) over the next few months. Once these are received, we expect the final investment decision to be made, leading to a capital raising and the commencement of main construction work.

BLD received a nil premium off-market takeover offer from its major shareholder, Seven Group Holdings Ltd (SGH). Since the offer was announced, the BLD share price has traded at a premium to the $6.50/share offer price and SGH has not purchased any shares. However, as a result of BLD buying back its own shares, SGH's shareholding in the company has increased to ~23.5%, a long way from the 'control' position described by some in the media.

After month end, BLD released its Target's Statement, which included an Independent Expert Report (IER). This IER is required under the Corporations Act as BLD and SGH share a common director (Ryan Stokes). The IER ascribed a valuation to BLD of $8.25 to $9.13 per share. Pleasingly, both the BLD Board and the Independent Expert have highlighted the material latent value in BLD's surplus property portfolio, which is estimated to be worth "at least" $850m. With strong tailwinds from its end markets, a significant cost out program and the potential for asset sales to drive further capital management initiatives, we believe the future is bright for BLD and its shareholders. Suffice it to say, we do not believe the current offer of $6.50 per share from SGH anywhere near ascribes fair value to BLD's attractive assets.

Whilst FWD was our worst performer for the month, we believe there was some positive news flow from another company, with implications for FWD, that was completely missed by the market. In early May, Incitec-Pivot announced that they had signed a 20-year offtake agreement for all of the urea production from the (yet to be constructed) Perdaman urea plant. Perdaman are building a $4.5bn plant on the Burrup Peninsula, which will produce >2Mtpa of urea at full capacity. If they can organise financing in 2HCY21, construction will begin in CY22 and take ~3 years. The construction workforce will be ~2,000 people.

The founding chairman of Perdaman is Vikas Rambal. He was responsible for building the Burrup Fertilisers ammonia plant on the Burrup Peninsula in 2003-2006, so has form and experience in building these projects on the Burrup Peninsula. When the Burrup Fertilisers plant was built, the construction workers were housed at Fleetwood's Searipple accommodation village. Whilst this does not guarantee FWD the contract to house the construction workers for the construction of the Perdaman urea plant, it does stand them in good stead. Furthermore, there is unlikely to be any other accommodation of scale available in Karratha if Woodside proceeds with the development of Scarborough and expansion of its Pluto LNG plant (a decision on this is expected later this year). If the Perdaman were to proceed and FWD were awarded the contract to house the construction workers, we believe it would be a very important development for the company.

During the month, Monash Absolute Investment Company Ltd (MA1) shareholders voted overwhelmingly in favour the proposal to restructure the company and distribute units in an exchange traded managed fund (ETMF) to shareholders. The ETMF allows unitholders to redeem their investment at close to the prevailing NTA as well as on market, where a market maker operates to ensure the market price is closer to NTA. Although this process, begun in August 2019, has taken far longer than we would have liked, we believe the outcome is a fair balance for those seeking to exit (like us) and those seeking to remain. The units of the new ETMF began trading on 10 June and we exited our entire investment. We maintain a stub holding in MA1, which contains cash and unlisted investments.

The Fund bought into MA1 at a substantial discount to NTA. By pressuring the board to act (including with a takeover proposal by Sandon Capital Investments Limited in October 2018) and a combination of underlying investment performance and the narrowing of the discount, this has been a very profitable investment.

Our long-held investments in moderately priced companies with predominant exposures to the industrial economy continue to deliver rewards. We continue to be excited by the prospects for a number of our holdings in 2021. We look forward to reporting to you on their progress in future newsletters.

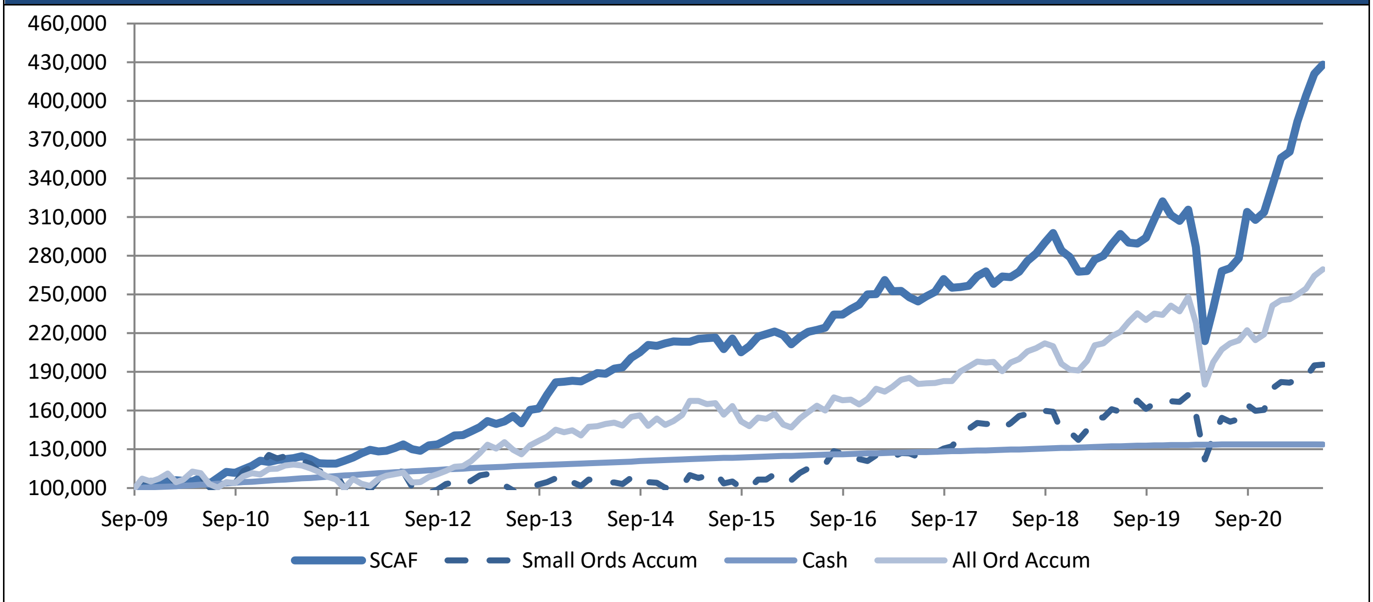
Fund Description

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.

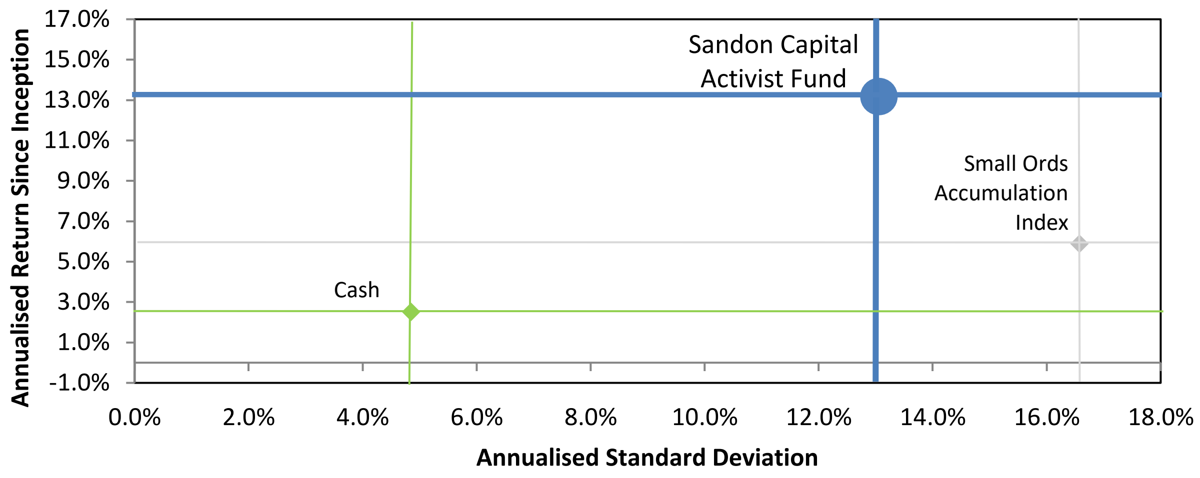
Fund Details

Structure	Wholesale unit trust	Minimum Investment	$250,000 (or as agreed with trustee)
Trustee	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.