SANDON CAPITAL

Sandon Capital Activist Fund

June 2020 Monthly Report

Entry/Exit Prices: $1.5163/$1.5042

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	0.9%	-6.8%	2.8%	5.4%	9.6%	9.6%	12.6%	170.5%
S&P/ASX 200 Accum.	2.6%	-7.7%	5.2%	6.0%	7.8%	7.2%	13.6%	112.0%
Small Ordinaries Accum.	-2.0%	-5.7%	6.1%	7.9%	4.6%	3.9%	16.8%	51.4%
Cash	0.0%	0.9%	1.5%	1.6%	2.6%	2.7%	4.3%	33.7%

Portfolio Exposures

Net Exposure	94%	Long Positions	36
Net Cash	6%	Short Positions	1

Fund Commentary

The Fund return for June 2020 was +0.9%, bringing total returns (net of all fees and expenses) since inception to the equivalent of 9.6% per annum. Cash levels ended the month at approximately 6%.

Returns this month were more subdued than those from April and May 2020. The return for the financial year ended 30 June was a disappointing -6.8%, though when considering market returns, the Fund's return has settled almost in the middle of the large and small capitalisation indices. Importantly, the vast majority of the decline is unrealised, and we remain intently focused on regaining the Fund's highwater mark ($1.7984 per unit).

Key contributors to June's returns were Infigen Energy Ltd (IFN) (~+2.9%) and Consolidated Operations Group Ltd (COG) (~2.2%). The main detractors were Coventry Group Ltd (CYG) (~-1.8%) and Fleetwood Corporation Ltd (FWD) (~-1.1%).

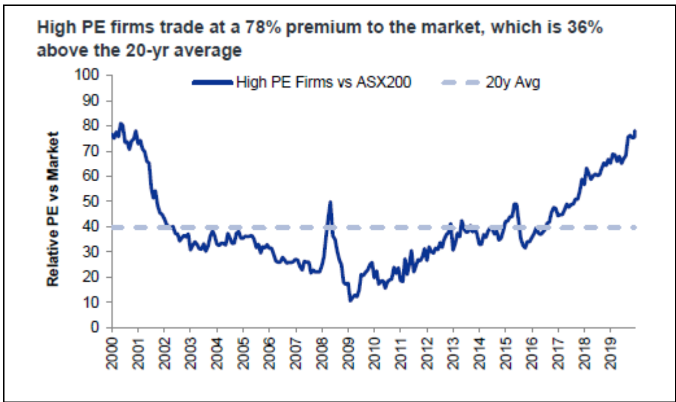
Funds managed by Sandon Capital have been investors in IFN for almost two years. Over that time, the Board and executive team have done a very good job of managing the company, both operationally and financially. Despite this, the company's shares had remained significantly undervalued when compared to other listed utilities and private market control transactions for wind farms. As has been a common occurrence in a number of our investments over the years, a bidder will invariably emerge if the capital markets persistently undervalue a company, especially those with highly cash generative assets and strategic value. In the case of IFN, a bidding war erupted during the month and the shares rose more than 50%. The first bid, from UAC Energy Holdings Pty Ltd (UAC), proposed an all cash offer priced at 80 cents per stapled security. Two weeks later, IFN announced that it was recommending a competing takeover offer from Spanish-backed company Iberdrola Renewables Australia Pty Ltd (Iberdrola) at 86 cents per share. Upon UAC raising its offer price to 86 cents per share and freeing its bid from all conditions, Iberdrola quickly followed by increasing its offer to 89 cents per share as well as freeing its bid from most conditions. Both bidders have obtained Foreign Investment Review Board (FIRB) approval and have acquired an interest in IFN shares. Iberdrola's bid has the support of IFN's largest shareholder, The Children's Investment Master Fund and CIFF Capital UK LP (together the TCI Funds), by way of a pre-bid agreement. The TCI Funds have the ability to accept a higher offer, if it is unmatched by Iberdrola. This would seem to put Iberdrola bid in the box seat, but we believe there is a way to go before a final offer is settled upon. The market seems to have come to the same conclusion given IFN shares are currently trading above Iberdrola's highest bid of 89 cents per share.

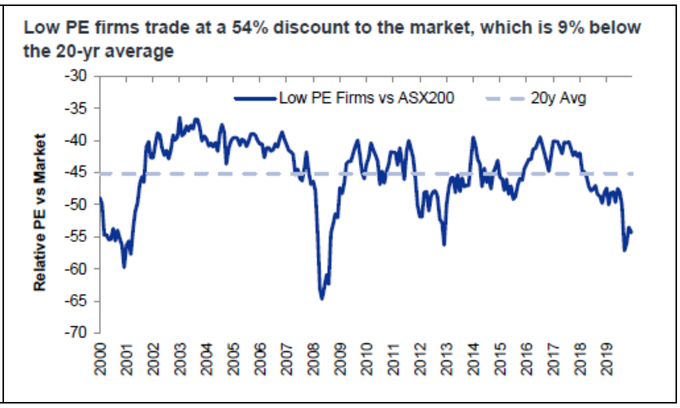
COG's share price rose 37% over the month. In a mid-month trading update, COG advised that its Finance Broker and Aggregation Segment had "*exceeded the Company's expectations given COVID-19 and performed solidly during the H2 reporting period…*". Given COG management have traditionally been conservative about future prospects, the end result for FY20 may prove to be even better than the encouraging update. COG also announced that it had secured the opportunity to acquire further shares in Westlawn Finance Limited (Westlawn). The first tranche will take their holding to 51%, from ~32% currently. The second tranche provides an option for COG to further increase its holding to 75%. COG explained the strategic rationale for the increased investment is for Westlawn to become the main funding vehicle for COG's lending activities. COG also plans to expand Westlawn's capabilities to include the establishment of a managed investment scheme to increase funds under management. This will allow COG to expand its lending operations without raising additional capital to support lending growth. Historically, Westlawn has raised funds for its lending activities by way of unsecured notes. In its latest prospectus for unsecured notes issued in late 2019, Westlawn disclosed assets including cash holdings of $41m and total loans outstanding in excess of $175 million from more than 6700 loans. We believe Westlawn will become an increasingly valuable contributor to funding COG's growth as the strategy develops.

During June, financial markets around the world seemed to continue to shake off any worries about COVID-19 and its economic fallout, despite worsening statistics, particularly in the US and South America. We've previously said we are not epidemiologists and do not propose becoming amateur(ish) ones. That said, there are plenty of reputable and renowned experts whose analysis can be read and understood. Clearly, the health risks of COVID-19 are not over. First waves of infection continue to rise (viz USA) and second waves are emerging in Europe and closer to home in Melbourne. These risks should not be ignored. We continue to believe a new normal will be found, though we don't know when.

When it comes to financial markets, and equities in particular, it seems to us investors are behaving as though there are two types of companies, those whose growth prospects are seen as unimpeachable (mainly, but not limited to, tech businesses) and the rest of the market. Insightful analysis by Goldman Sachs' Australian strategy team showed that as forecast earnings for S&P/ASX 200 companies <u>fell</u> by 23% over FY20, the valuation of the index <u>increased</u> by 16%.

We understand that falling interest rates have had an effect on valuation, but what concerns us most is the decline in earnings. Even prior to COVID-19, corporate earnings for the first half of FY20 were weak. The pandemic simply tipped many over. What GS analysis also shows is an increasing bifurcation of valuations amongst companies. High PE companies are now trading at extreme premiums to their 20-year average, just as low PE companies are trading at historic discounts to those averages.





Source: Goldman Sachs Portfolio Strategy Research

We believe the market is overpaying for perceived growth and safety. Future returns from buying such companies at current prices are likely to be far lower than expected by those buying. Our caveat to this statement is to borrow partially from one of J M Keynes' famous comments by saying the market for such companies can remain irrational longer than one might expect.

Despite the challenges of applying a value-based investment approach in this environment, we remain committed and convinced this is the best way of delivering consistent long term returns. Underperformance remains a risk, but to recant and invest in momentum and growth would present an unacceptably high risk of permanent capital impairment.

We continue to accumulate shares in a number of new companies which we look forward to discussing at some point in the future.

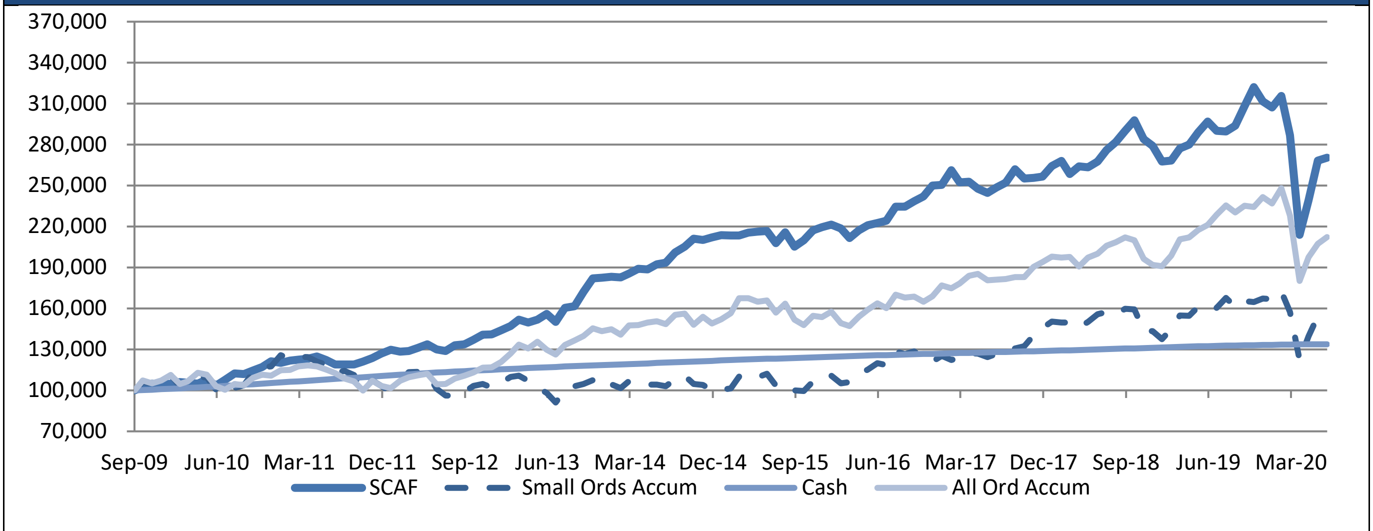
Fund Description

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.

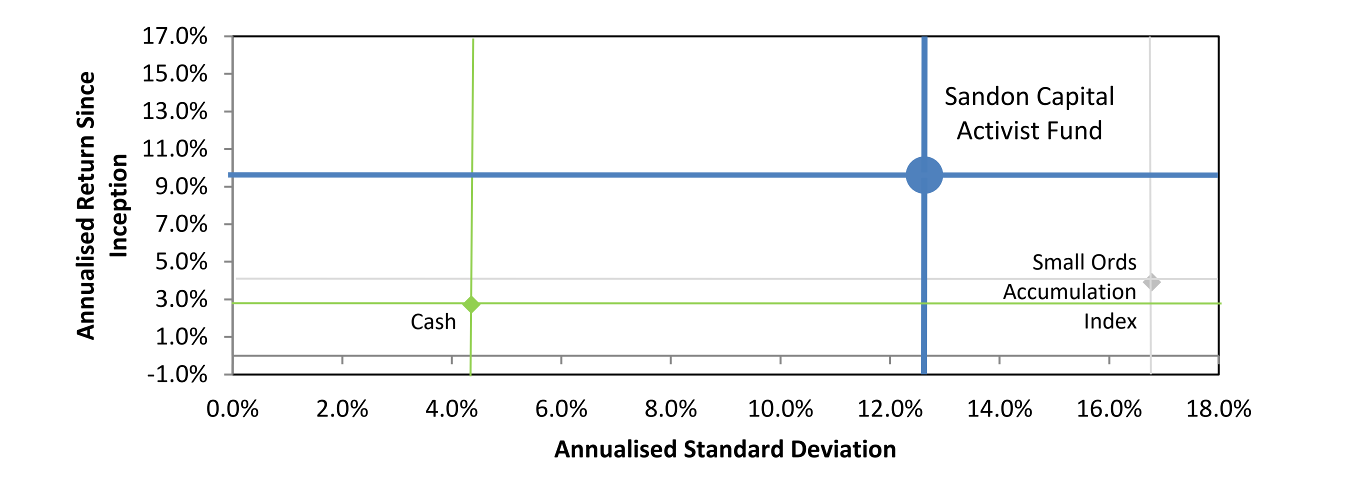
Fund Details

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.