SANDON CAPITAL

Sandon Capital Activist Fund

December 2020 Monthly Report

Entry/Exit Prices: $1.9949/$1.9790

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	6.4%	15.9%	10.4%	10.0%	11.5%	11.9%	13.1%	255.9%
S&P/ASX 200 Accum.	1.2%	1.4%	6.7%	8.7%	7.8%	8.0%	13.7%	139.9%
Small Ordinaries Accum.	2.8%	9.2%	6.6%	10.5%	3.8%	5.4%	16.8%	82.1%
Cash	0.0%	0.3%	1.2%	1.4%	2.4%	2.6%	4.6%	33.8%

Portfolio Exposures

Net Exposure	94%	Long Positions	29
Net Cash	6%	Short Positions	0

Fund Commentary

The Fund return for December 2020 was +6.4%, 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 6%.

The 2020 calendar year return was 15.9%, the third highest calendar year return since inception. Whilst the full year result was satisfactory, it masks the incredible volatility due to the COVID-19 pandemic. In February and March 2020, the cumulative decline of the fund was more than 32%, our largest ever drawdown.

We wrote to investors in a letter dated 26 March 2020 explaining how we were dealing with the portfolio. In summary, we exited some small positions (comprising <1% of the portfolio) where the prospects were dim. We also purchased securities in a number of companies that were trading at a fraction of their asset values. Aside from this, very little trading was undertaken.

We reviewed our investments and made assessments of their medium to long term prospects as well as what short term risks they might face. We did not engage in what we would consider speculative changes to the portfolio to either avoid or profit from any future developments we could not guarantee. We stuck to our tried and tested investing principles, and these paid off well.

A critical component of our ability to stick to our investment process is our underlying investor base. We are fortunate to have investors that have a patient, long term outlook that matches ours, and this allows us to ignore the impact of market volatility on the portfolio, and more importantly, to profit from it. We had no redemptions during the volatile February/March period and some of our investors with strong stomachs committed further capital. Your continued support is appreciated and integral to our performance, as was ably demonstrated this year.

The Fund's return (+15.9%) significantly outperformed the broader share market, as measured by the S&P/ASX200 Accumulation Index (+1.4%) and the Small Ordinaries Accumulation Index (+9.2%). This result was achieved with three of our four largest positions delivering negative returns for the year and without owning any of the market's darling stocks, for example technology stocks.

Key contributors to December's returns included City Chic Collective Ltd (CCX) (+4.1%), BCI Minerals Ltd (BCI) (+1.7%), Iluka Ltd (ILU) (+1.0%) and AIMS Property Securities Fund (+1.0%). Our worst performing position (-0.4%) was an undisclosed stock that we had been accumulating earlier in the year before the share price ran away from us. Should the share price continue to weaken, we will look to add to our existing position.

CCX, whose share price has performed strongly since late March, announced it had acquired the Evans brand, and eCommerce and wholesale businesses from Arcadia Group for A$41m. Evans is a UK-based retailer of women's plus-size clothing with a longstanding customer base and strong market position.

In July 2020, CCX raised more than $110 million in new equity to fund potential acquisitions. The catalyst for the capital raising was the prospect of a second US acquisition, the e-commerce assets of Catherine's. In mid-September, CCX announced it had been outbid for that business, a decision we saw as demonstrating a disciplined approach to acquisitions.

Some others had different views and the CCX share price fell, despite otherwise good results and positive announcements emanating from the company. We saw CCX as disciplined and well-placed with a solid war-chest. That war-chest has been put to good use in the acquisition of Evans. Following the acquisition and investment in working capital, CCX has in excess of $70m in cash, plus undrawn debt facilities totalling $40 million. We support the board and management to deploy this capital as and when they see fit. To date, they have demonstrated superb capital allocation skills.

BCI continued to meet milestones on the Mardie salt and potash project with the announcement that it had obtained approval for a $450m loan from the Northern Australia Infrastructure Facility (NAIF) program. The NAIF loan is an integral funding component of the Mardi project and also an important precursor to BCI receiving bank debt and equity to fully finance the project.

Following the $48m equity raising announced in September 2020, early-stage construction works have commenced at Mardi and long lead time capital equipment items have been ordered to accelerate development of the project. We expect bank debt terms to be agreed in the first half of 2021, which will be followed by the final investment decision and equity funding around the middle of the year. Whilst there is a relatively long lead time until the first salt shipment in 2024, we are confident that the high-quality management team at BCI and strong projected economics at the Mardi project will deliver sound long term returns for shareholders.

ILU provided an update at a Goldman Sachs conference on the burgeoning opportunity that lies ahead in the rare earths space. Whilst traditionally a mineral sands producer, ILU also produces rare earth bearing monazite as a co-product at some of its operations. Prior to the 1990's, this product was sold to overseas customers. Since then, it has been stored in a mining void at the company's Eneabba site and carried on the balance sheet as a (rehabilitation) liability. With the strong increase in demand and pricing for rare earths, this liability is now an asset.

ILU re-entered the rare earths market earlier this year through the low-risk phase 1 development of the monazite-rich stockpile at Eneabba. Phase 2 of the project involves further upgrading of the monazite to a grade of 90%, as well as the production of small amounts of zircon and ilmenite. The low capital cost and 10-year reserve base of the Eneabba rare earths deposit look to be important drivers of value for ILU for the next decade. We expect to hear further news on the rare earths opportunity at the company's Wimmera deposit over the next 12-18 months as feasibility studies are carried out.

We remain somewhat perplexed at the speed and extent of financial market recovery. We are keeping a close eye on whether business activity can meet expectations. The Fund's exposure to what we have described as the industrial economy would seem to offer better, more sustainable prospects than the wider economy. We continue to accumulate positions in several 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.

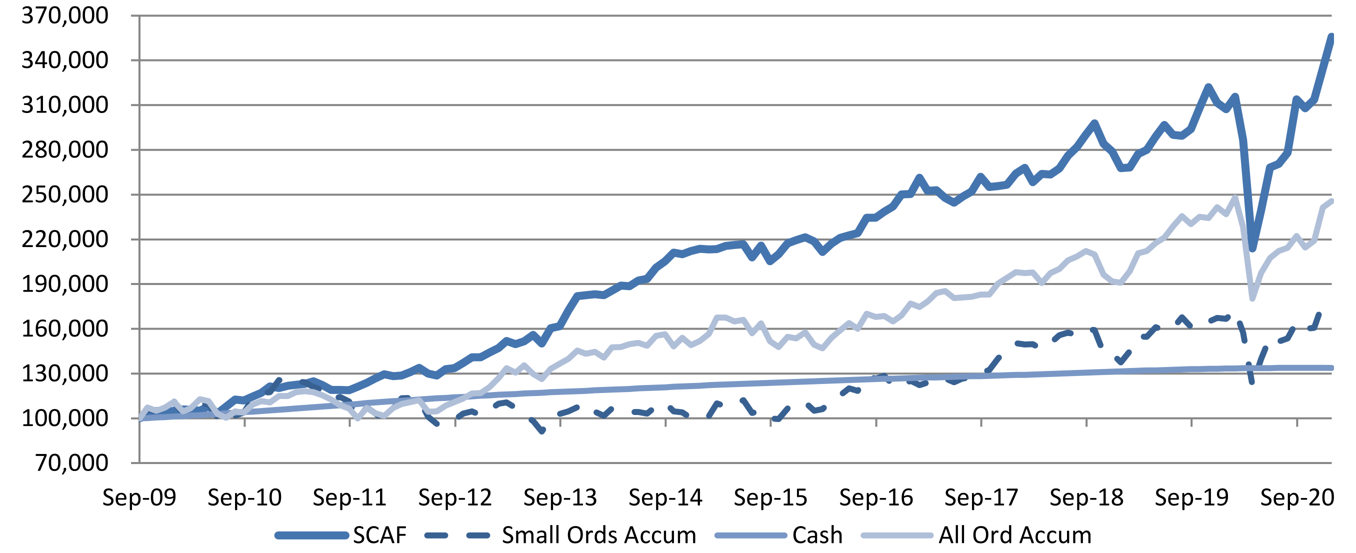
Fund Description

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.

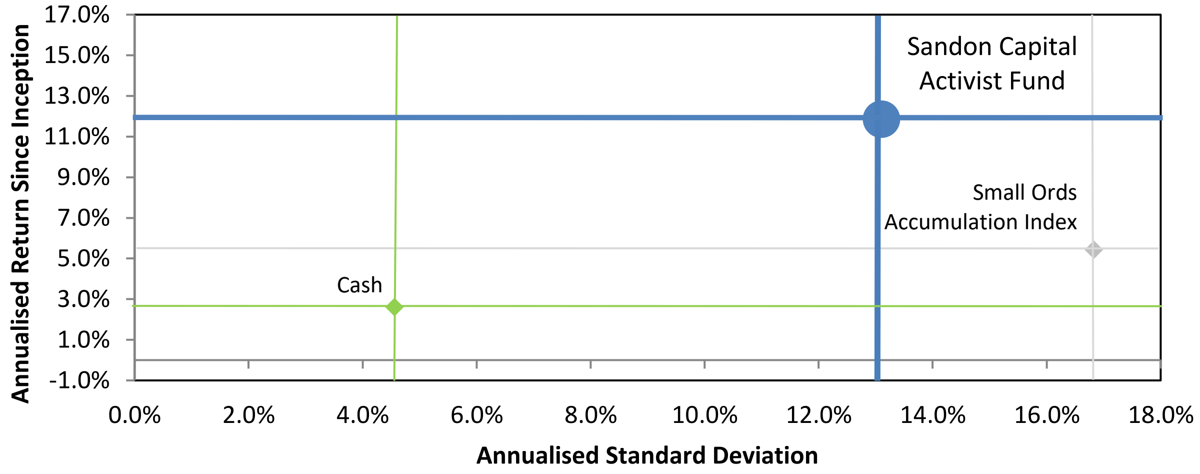
Fund Details

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.