

# SANDON CAPITAL

Sandon Capital Investments Limited  
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## Monthly Report

As at 31 October 2018

### Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 31 October 2018 were:

NTA before tax (ex div)	\$0.9750	-3.2%
Deferred tax asset	\$0.0008	
Deferred tax liability on unrealised income and gains	(\$0.0437)	
NTA after tax (ex div)	\$0.9321	-2.4%

### Investment Performance

Gross Performance to 31 August 2018 <sup>1</sup>	1 Month	Financial YTD	Since inception <sup>2</sup>
SNC	-5.1%	+1.7%	+10.0%
All Ordinaries Accumulation Index	-6.5%	-4.7%	+7.6%
<b>Outperformance<sup>3</sup></b>	<b>+1.4%</b>	<b>+6.5%</b>	<b>+2.4%</b>

1. The SNC and index returns are before all fees and expenses and before any taxes, except that SNC returns are after incurred brokerage expenses. Dividends paid during the period are included when calculating SNC's gross investment performance.

2. Annualised.

3. Note figures may not tally due to rounding.

### Dividends

SNC has declared and paid 26.0 cents per share of fully franked dividends since listing in December 2013. The Board anticipates declaring an interim dividend of a similar amount to the final dividend paid in November 2018, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice.

The table below shows the SNC dividend history.

Ex-date	Dividend Amount	Franking	Corporate Tax Rate	Type
23 October 2018	3.5 cps	100%	27.5%	Final
8 May 2018	3.5 cps	100%	27.5%	Interim
23 October 2017	3.5 cps	100%	27.5%	Final
18 May 2017	3.5 cps	100%	30.0%	Interim
21 October 2016	3.0 cps	100%	30.0%	Final
18 April 2016	2.0 cps	100%	30.0%	Interim
22 October 2015	1.0 cps	100%	30.0%	Special
22 October 2015	2.0 cps	100%	30.0%	Final
1 June 2015	2.0 cps	100%	30.0%	Interim
14 October 2014	2.0 cps	100%	30.0%	Special

### Sandon Capital Investments Limited

ASX Code	SNC
Listed	23 Dec 2013
Gross assets	\$47.6m
Market capitalisation	\$44.3m
NTA before tax	\$0.9750
Share price	\$0.92
Shares on issue	48,435,427
Options on issue	nil
Fully franked dividends	\$0.07
Dividend yield	7.6%

### Company overview

Sandon Capital Investments Limited is a specialist 'Activist' listed investment company, managed by Sandon Capital. Sandon Capital devises and implements activist shareholder strategies that seek to unlock value inherent in securities held in our investment portfolios.

SNC provides investors with exposure to a portfolio of Australian companies that are typically not available to traditional investors. Through active engagement with the target company, Sandon Capital seeks to release the embedded value for shareholders. Target companies are likely to be in the small to mid cap market segment.

Sandon Capital has successfully employed its Activist investment strategy since September 2009. The wholesale Sandon Capital Activist Fund's investment performance since inception is 12.1% p.a. (after all fees and expenses).

### Investment Objectives

- To provide absolute positive investment performance over the medium to long term, ensuring capital preservation, while providing capital growth.
- To provide an investment strategy that few investors have the capacity to implement themselves.
- To provide shareholders with a growing stream of fully franked dividends.

## Portfolio commentary

The Portfolio was down 5.1% in October. Gross portfolio returns since inception are the equivalent of 10.0% per annum, compared to 7.6% per annum for the All Ordinaries Accumulation Index.

Cash levels ended the month at approximately 2%, and are likely to be supplemented as a result of takeover activity within the portfolio (discussed below).

Iluka Resources Ltd (ILU) (~-1.6%), Fleetwood Corporations Ltd (FWD) (~-1.0%) and Specialty Fashion Group Ltd (SFH) (-1.0%) were the main detractors for the month. Unlike last month, the Fund was also down with the market, though less so, which is pleasing.

Aside from the downward effect of the market selling off, the only holding in which there was company specific news that might have contributed to the falling share price was ILU. ILU announced its quarterly production report, which we read as largely positive, except for the continued operational and industrial relations challenges facing its Sierra Rutile operation in Sierra Leone. We expect these will be dealt with in due course.

There was no other negative company specific news elsewhere in the portfolio.

On the positive side, Besix announced an unconditional off-market takeover offer at 92 cents per share for all the shares of Watpac Ltd (WTP) they did not own. This represented a 41% premium to the prior day's closing price and contributed approximately 1.7% to the Fund's return for the month. We are yet to decide on the offer, but note that the price is the same as when BESIX made a proportional takeover offer in February. Since then, WTP has advised the market that its order book has not only grown, but has also improved in quality of contracts. They have moved away from lower margin residential projects in favour of more specialised and presumably higher margin work, like social infrastructure. We would have thought the improvements to the order book, and the outlook statements made would have justified a higher price, yet the WTP directors seem to have jumped straight into the suitor's arms. This again highlights one of the risks of buying undervalued companies: that a takeover might be made at a premium to the share price, yet still be at a discount to the true worth of the company. If we choose to succumb, cash levels would increase by 6% all other things being equal.

At the smaller end of the portfolio, October also saw the emergence of a scheme of arrangement proposal from Universal Coal plc. The proposal, if passed, would yield a cash price of 35 cents per share, a substantial premium to our average purchase price of 22 cents per share.

At the end of the month, Sandon Capital formed an association with Samuel Terry Asset Management to pursue the winding up of the AIMS Property Securities Fund (APW). We've been invested in APW for nearly two years, and it trades at a persistent discount to NTA. The current market price is \$1.80 and last reported NTA is \$2.37. This is likely to be quite a hard-fought engagement and we expect to publish our rationale in coming weeks.

During the month, Sandon Capital Investments Ltd (ASX:SNC) made a merger proposal to Monash Absolute Investment Company Ltd, the shares of which the Fund owns. MA1 trades at a reasonably persistent ~15% discount to NTA. The proposal would have allowed shareholders to exit its investment at NTA in cash or take SNC shares. The MA1 Board rejected the proposal. We believe the pressure is on MA1 to deliver a better outcome and we will remain, lurking, as a shareholder.

We closed out one of our three small short positions at a profit, and maintain the remaining two. The short positions made a small contribution to the monthly return (~0.1%).

We have taken the opportunity of falling markets to selectively add to some existing positions, though some of the shares we would have most liked to buy did not fall by much. We remain patient. If the past provides any indications, such turmoil is likely to provide us with some interesting investment opportunities. Beyond that, we make no predictions.

## Investment Portfolio

	October 2018	September 2018
Listed Equities	98%	95%
Cash or Cash Equivalents	2%	5%
Number of investments	31	31

## Contact

If you have any questions regarding the Company or its investments, please call Gabriel Radzynski on 02 8014 1188. If you have questions regarding your shareholding, please contact Link, whose details appear below.

Further information:

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**Share registry:**

**Link Market Services**

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