

SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 31 July 2019

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 31 July 2019 were:

NTA before tax (ex-dividend)	\$0.8966	0.04%
Deferred tax asset	\$0.0008	
Deferred tax liability on unrealised income and gains	(\$0.0026)	
NTA after tax (ex-dividend)	\$0.8948	-0.7%

* NTA was impacted by acquisition of MVT shares. Refer next page for further detail

Investment Performance

Gross Performance to 31 July 2019 ¹	1 Month	Financial YTD	Since inception ²
SNC	-0.8%	-0.8%	+9.0%
All Ordinaries Accumulation Index	+3.0%	+3.0%	+10.1%
Outperformance³	-3.8%	-3.8%	-1.0%

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 29.5 cents per share of fully franked dividends since listing in December 2013. The Board anticipates declaring a final dividend of a similar amount to the FY19 interim dividend, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice.

The table below shows SNC's recent dividend history.

Ex-date	Dividend Amount	Franking	Corporate Tax Rate	Type
16 May 2019	3.5 cps	100%	27.5%	Interim
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

Sandon Capital Investments Limited

ASX Code	SNC
Listed	23 Dec 2013
Gross assets	\$54.3m
Market capitalisation	\$48.6m
NTA before tax	\$0.8966
Share price	\$0.8200
Shares on issue	59,259,401
Options on issue	nil
Fully franked dividends	\$0.07
Dividend yield	8.5%

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 11.3% 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.

Corporate update

On 31 May 2019, SNC announced its intention to acquire 18.9% of the issued capital of Mercantile Investment Company Ltd (MVT) followed by an intention to make a takeover over for all the other shares it does not own by way of an NTA-for-NTA merger. Please refer to the various ASX announcements for further details. SNC's Offer has recommended by MVT's Independent Board Committee, in the absence of a superior offer. On 12 August 2019, SNC Shareholders approved several resolutions that were required as part of the Offer. As at the date of this report, SNC has a relevant interest of 22%.

Portfolio commentary

The Portfolio was down 1.7% in June. Gross portfolio returns since inception are the equivalent of 9.0% per annum, compared to 10.1% per annum for the All Ordinaries Accumulation Index.

Iluka Resources Ltd (ILU) was the main detractor to performance for the month. BCI Minerals Ltd (BCI) was the main contributor.

The portfolio continued its recent run of underperformance relative to the market indices. Back in July 2007, Chuck Prince, then CEO of Citigroup, a large US bank, talked about his bank's appetite for funding leveraged loans. He told a reporter "as long as the music is playing, you've got to get up and dance." Although the music playing today is different, it seems many equity investors hear the music and are up on their feet, many gyrating euphorically. That euphoria seems particularly focused on companies that seem to be able to deliver high growth, especially sought after in a low growth, low interest rate world. We are not so enthusiastic. Carrying on with Prince's metaphor, we are standing with a hand on the back of a chair, perhaps tapping a foot, rather than up dancing. This is a better place to be when the music inevitably stops.

While frustrated at the underperformance, we remain steadfastly committed to our investment approach. We believe that in time, the prices investors are prepared to pay for growth (real or perceived) will face a reality check. We don't know when this reality check will come, or in what form. Based on prices being paid today for growth, we believe investors may well face significant capital losses. At best, they may experience many years of little or no returns.

Despite these comments, we continue to find investment opportunities. The investments we are making typically have lower growth and are, therefore, underappreciated by the market. Their generally solid balance sheets and often reliable cashflows make for more attractive expected returns. We believe that fishing in this pond and using our activist techniques will prove to be more lucrative over time than investing in securities that are currently priced for perfection.

We discussed our investment in Highlands Pacific (HIG) in our April newsletter. During July, the closing spot price of nickel exceeded \$13,220 per tonne for 5 consecutive trading days. As a result, the contingent payment of an additional 1c/share was received in July (on top of the 10.5c/share takeover consideration previously received in May). This was the cherry on top of an investment that had already generated a very attractive, low risk return.

Investment Portfolio

	July 2019	June 2019
Listed Equities	95%	100%
Cash or Cash Equivalents	5%	0%
Number of investments	32	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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