

SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 29 February 2020

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 29 February 2020 were:

NTA before tax	\$0.9076	-4.9%
Deferred tax asset	\$0.0007	
Deferred tax liability on unrealised income and gains	(\$0.0039)	
NTA after tax	\$0.9044	-4.0%

Investment Performance

Gross Performance to 31 December 2019 ¹	1 Month	Financial YTD	Since inception ²
SNC	-6.2%	+0.9%	+8.4%
All Ordinaries Accumulation Index	-8.1%	-0.3%	+8.5%
Outperformance³	+1.9%	1.2%	-0.1%

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 36.5 cents per share of fully franked dividends since listing in December 2013.

SNC has profits reserves equivalent to 4.7 cents per share and franking of approximately 11.5 cents per share.

The table below shows SNC's recent dividend history.

Ex-date	Dividend Amount	Franking	Corporate Tax Rate	Type
5 May 2020	3.5 cps	100%	27.5%	Interim
21 October 2019	3.5 cps	100%	27.5%	Final
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*	\$125.6m
Market capitalisation	\$76.3m
NTA before tax	\$0.9076
Share price	\$0.7200
Shares on issue	106,658,126
Options on issue	nil
Fully franked dividends	\$0.07
Dividend yield	9.7%
Profits reserve (per share)	4.7 cps
Franking (per share)	~11.5 cps

*includes face value of Mercantile 8% unsecured notes.

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 10.6% 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 6.2% for the month, on a gross basis, before all fees and expenses compared to a decline of more than 8% for the All Ords Accumulation Index.

Although cash levels ended the month at approximately 1%. We anticipate receiving cash (from returns of capital and tax refunds) equivalent to approximately 8.0% of the portfolio during March and April 2020. This will provide us with a decent war chest to exploit the current market turmoil.

The main detractors to this month's return were Fleetwood Corporation Limited (FWD), Spectra Systems Corp and Coventry Group Limited (CYG). Most other positions were also down. Positive contributions were reported by the portfolio's small weighting to short positions and a 26% increase in the value of one of our private equity fund run-offs.

Reporting season came to an end this month, with most portfolio companies' results within expectations. We learned of solid results from City Chic Collective Ltd (CCX), which grew like-for-like revenues and profits, in spite of challenging retail conditions. We continued to sell down CCX earlier in the month as its shares rallied on the back of the strong result. Coventry Group Ltd (CYG) continued to deliver strong results, with revenues growing 36.8% and the bottom line turning a profit for the first time in five years. Infigen Energy Ltd (IFM) continued the reporting trend with a 23% increase in revenues and a 24% increase in profits. It also announced the signing of a long-term power purchase agreement, enabling the company to exploit its physical firming assets to capture the arbitrage between intermittent and firm electricity prices.

Overall, most of the fund's core holdings delivered revenue and earnings growth, in contrast to the market in aggregate. The exception was FWD, which failed to deliver. Its share price decline is a loud and clear message to the Board about shareholders' confidence in management (or lack thereof). FWD has one of the largest discrepancies between its market price and even the most conservative estimates of its intrinsic value.

Last month, we wrote "Markets generally remain challenging, with macro headwinds (such as bushfires and novel coronavirus) and a seemingly unconstrained appetite for growth by some investors, regardless of value." That report was written in early February and by the end of the month, the second part of that sentence was well and truly debunked. The rout in global markets has continued as we write this report.

Posterity will tell us what the impact of COVID-19 will have been. We are investment professionals, not health professionals. You do not need another fund manager feigning expertise in viral epidemiology. We do not know how this virus will impact our populations, nor do we have any idea of how it will impact our economies. As a result, we cannot know with any modicum of certainty what the impact on our portfolio companies will be. To do otherwise would be purely speculative – we are not speculators.

What we do know, with a great degree of certainty, is there will be a time where the impact of the virus fades, and normalcy returns.

Air traffic climbs to new record level

International air traffic volumes, seasonally adjusted figures, January 2000=100



Source: IATA

At times like this, facts and reliable data are paramount if one wants to avoid succumbing to the panic of the crowds. A particularly useful data set comes from the International Air Transport Association (IATA), showing international air traffic volumes.

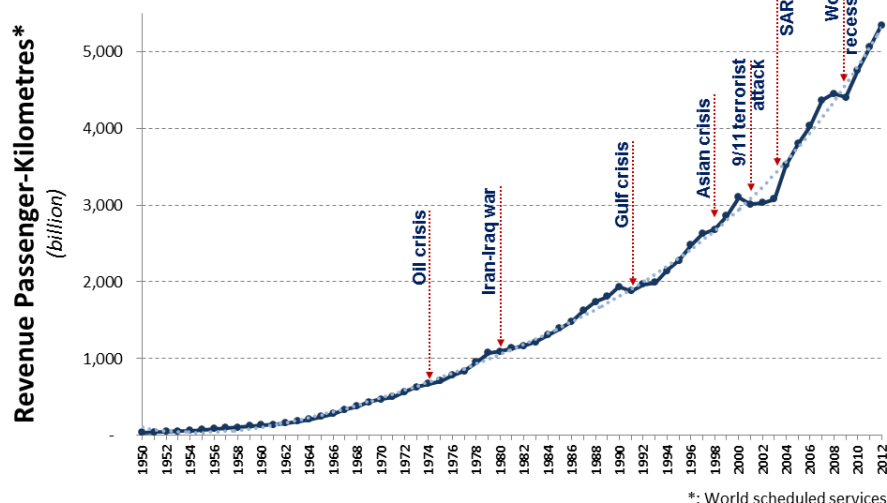
The chart on the left shows the impacts of 9/11, SARS and the GFC on air traffic volumes. The second chart below shows a longer time frame, from 1950 to 2012, with more geopolitical, health and financial calamities shown.

Accepting air travel as a proxy for economic activity, we see in both charts that everything in time returns to a normal trajectory of growth.

We make most of our investments on the basis of a long-term assessment of value. As a result, we are well placed to sustain short term price volatility in our pursuit of long-term rewards.

In the past fortnight, we have been net buyers of investments, and expect to continue to be so over the coming weeks and months.

The world aviation - 1950 to 2012



As mentioned above, we do not know when normalcy will return, but we know it will. In the meantime, we will apply ourselves as diligently as we can to the task of creating long term value while minimising any permanent impairment of your capital.

Investment Portfolio

	February 2020
Listed Australian Equities	73%
Listed International Equities	13%
Unlisted investments	13%
Cash or Cash Equivalents	1%

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.

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