SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 31 March 2020

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 31 March 2020 were:

NTA before tax	**$0.7438**	**-18.1%**
Deferred tax asset	**$0.0006**	
Deferred tax liability on unrealised income and gains	**($0.0011)**	
NTA after tax	**$0.7335**	**-18.9%**

Investment Performance

Gross Performance to 31 March 2020[1]	1 Month	Financial YTD	Since inception[2]
SNC	-22.5%	-21.9%	4.0%
All Ordinaries Accumulation Index	-20.9%	-21.2%	4.4%
Outperformance[3]	**-1.6%**	**-0.7%**	**-0.4%**

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*	**$107.9m**
Market capitalisation	**$66.1m**
NTA before tax	**$0.7438**
Share price	**$0.6200**
Shares on issue	**106,658,126**
Options on issue	**nil**
Fully franked dividends	**$0.035**
Dividend yield (6-mths)	**5.6%**
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 7.5% 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 22.5% for the month, on a gross basis, before all fees and expenses, compared to a decline of 20.9% for the All Ords Accumulation Index.

The portfolio was widely impacted by falling markets during the month. March saw global markets fall significantly harder and faster than during the GFC as countries across the world began to grapple with the COVID-19 Pandemic. Major economies have restricted social and economic interactions to varying degrees. Those responding soonest and with the most stringent social distancing regimes would now appear to be those with less significant public health consequences. The economic impact in most cases is enormous. Australia's public health responses seem to be among the best so far, as measured by infection rates and fatalities. Federal and state governments appear to have taken a "whatever it takes" approach to mitigating the economic fallout from public health and safety response. Federal stimulus and mitigation measures announced so far total $300 billion over the next 3-4 years. Bulwarks of government responses include a temporary doubling of the job-seeker allowance for the unemployed and the establishment of a "job-keeper" allowance to assist employers to keep staff employed. There are also packages to encourage business investment and debt relief measures.

The share prices of many of the companies we invest in have generally fallen by more than the market. As is commonplace in market turmoil, there is a flight to quality and size, with no regard for value. Investors will tend to prefer larger, more liquid companies over smaller, less liquid ones. Today, smaller companies are trading at larger discounts to their larger peers than was seen during the depths of the GFC. We have been net buyers of stocks during the month.

Spectra Systems Corp, our largest holding, performed significantly better than the market, falling only 9.2% from the prior month. Intra month performance was far worse, with Spectra falling by more than 37% at one point, before the market remembered that Spectra's business was largely immune to the effects of the economic fallout from COVID-19. Our confidence in the company's prospects were validated on March 23 when it delivered a very strong financial result for 2019, in addition to an upbeat short term and longer term outlook. Reflecting this, the company's share price has continued to strengthen in early April.

Consolidated Operations Group Limited (COG) was one of the largest detractors during the month, after its share price fell nearly 42%. We think COG's decline was exacerbated by its protracted tussle with CML Group Ltd (CGR) and Scottish Pacific. On the last day of the month, CGR withdrew its Takeover's Panel application against COG. The dispute was resolved when COG announced that it would no longer seek to acquire CGR. If the Scottish Pacific proposal is successful, COG will receive total consideration of 60 cents per share ($22.6 million in cash). We estimate COG would have a war chest of cash in excess of $32 million to deploy at post COVID-19 prices.

Operationally, COG has announced it is scaling back its direct lending while there is uncertainty in a deteriorating economic environment. We expect their focus will be on ensuring lease payments are made and recoveries maximised. Importantly, the loans and debentures that fund the leased assets have recourse to the leased assets and not COG itself. COG has also announced that its finance broking and aggregation business is expected to benefit from the government stimulus and RBA funding packages aimed at small and medium size businesses.

We acquired shares in CGR last year in lieu of exercising the Fund's entitlements in the COG capital-raising. At the time, buying CGR provided a discounted entry into COG shares. We had publicly backed the COG proposal and were slated to campaign and vote against the Scottish Pacific Proposal. It now looks like this will be a futile effort, though in failure, we will book profits on those CGR shares if the Scottish Pacific proposal is successful. With COG's change of heart, we expect it will pass. If so, this will be a very profitable second prize. Heads you win, tails you win – we like those kinds of investments. Disposing of CGR will add approximately ~3% to cash levels.

Smiths City Group Ltd has been heavily affected by New Zealand's stringent lock-down protocols, which have required it to shut all its retail stores as well as its distribution centres. It has also stood down most of its 465 employees whilst paying them 80% of their salaries, supported by the government's employee support package. During the month, Smiths City also announced that its bank, ASB the NZ subsidiary of Commonwealth Bank, had extended the repayment date of a $1.5 million loan while discussions took place with strategic investors. We trust ASB will be genuinely constructive and will act reasonably during the challenging times caused by COVID-19.

The same announcement also advised that PWC had been retained to assist the company with a review of strategy and capital structure. Notwithstanding the difficulties faced by Smiths City, we believe it remains significantly undervalued and has untapped potential. The COVID-19 pandemic may offer Smiths City an opportunity to undertake some much-needed restructuring of its store network and cost base. We are involved in these discussions and at this stage are not able to comment beyond what Smiths City has already publicly announced.

On 31 March, Smiths City announced it would resume online trading in line with changes to government restrictions. We are keen to see the Smith City team return to work as soon as is possible once restrictions begin to be lifted.

After month end, MG Unit Trust (MGC) announced that the Federal Court had approved the settlement of its remaining class action. Following this, we expect an extraordinary general meeting to be held to appoint a liquidator to return cash to shareholders and wind up the group. MGC currently has ~48 cents per share in cash which we expect to be returned in the next few months.

Also after month end, Stanmore Coal Limited (SMR) was the subject of an unconditional on-market takeover offer from Golden Investments Ltd (GI). GI was able to quickly increase its stake to 51%. We have written to the Board of SMR asking that they explore and consider means by which a special dividend might be paid to SMR shareholders who are yet to accept the GI offer. By our calculations, SMR could pay a special fully franked dividend of up to 14 cents per share, which would deliver franking credits of approximately 6 cents per share (equivalent to a further 6% of the value of GI's $1.00 per share cash offer).

Onemarket Limited (OMN), which went into voluntary liquidation in late 2019 was due to make an initial distribution by the end of March 2020. This distribution was estimated to be 88-94 cents per share. OMN shareholders were recently advised that the initial distribution would be delayed until late May 2020. The silver lining to this delay was that the USD proceeds for the initial distribution were converted to AUD at an opportune time, and the initial distribution estimate was revised to $1.08 to $1.11 per share. We think this increase is well worth the wait. Once received, cash levels will be bolstered by >2%.

We made an informed decision to hold onto almost all of our investments, based on our assessments of long term value. The update we sent to unitholders in late March details the underlying thesis for our top positions in a present and post COVID-19 world. Whilst the world is changing rapidly, we remain comfortable with the financial position of our investments and the opportunities that lay ahead of them. A number of investments are already well off their intra-month lows, and while we expect continued volatility in share prices, our key focus remains avoiding the permanent loss of capital.

During the last few years, we've heard many investors quote Baron Rothschild, saying they want to "buy when there is blood in the streets..." What most forget or don't know, is the last part of his quote, which is "…even when the blood is your own." This is one of those times where the full quip bears remembering.

As >10% cash is received from the aforementioned investments, we will continue to deploy funds across existing and new investments that we consider attractive. We continue to eschew predictions on when the pandemic will be overcome and when financial markets will begin to see a rebound in economic activity. Instead, we plan to seize opportunities over the next 6 months or so, knowing we will likely begin to buy some investments too soon, that some will have already bottomed out, and that we will not time everything to perfection. We remain confident that in the medium to longer term, this crisis will provide some incredible investment opportunities.

Investment Portfolio

	March 2020
Listed Australian Equities	64%
Listed International Equities	17%
Unlisted investments	15%
Cash or Cash Equivalents	5%

Contact

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

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