

SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 31 January 2017

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 31 January 2017 were:

NTA before tax	\$1.0774
Deferred tax asset	\$0.0036
Deferred tax liability on unrealised income and gains	(\$0.0454)
NTA after tax	\$1.0355

Note: The NTA figures reported above are after the payment of 12.0 cents per share of fully franked dividends. The NTA figures include the 3.5 cents per share interim dividend declared on 2 February 2017.

Investment Performance

Gross Performance to 31 January 2017 ¹	1 Month	Financial YTD	Since inception ²
SNC	6.8%	24.2%	13.4%
All Ordinaries Accumulation Index	-0.8%	9.1%	8.0%
Outperformance³	7.6%	15.1%	5.4%

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

The Board has declared in 3.5 cents per share interim dividend, an increase of 75% on the prior interim dividend.

The Board anticipates being able to declare a similar final dividend for the year ending 30 June 2017, subject to prudent business practices and the availability of profits. SNC has declared 15.5 cents per share of fully franked dividends since listing in December 2013.

The table below shows the SNC dividend history.

Ex-date	Dividend Amount	Franking	Type
18 May 2017	3.5 cps	100%	Interim
21 October 2016	3.0 cps	100%	Final
18 April 2016	2.0 cps	100%	Interim
22 October 2015	1.0 cps	100%	Special
22 October 2015	2.0 cps	100%	Final
1 June 2015	2.0 cps	100%	Interim
14 October 2014	2.0 cps	100%	Special

Sandon Capital Investments Limited

ASX Code	SNC
Listed	23 Dec 2013
Gross assets	\$50.4m
Market capitalisation	\$45.6m
NTA before tax (ex-div)	\$1.0774
Share price	\$1.03
Shares on issue	44,260,206
Options on issue	nil
Fully franked dividends	\$0.065
Dividend yield	6.3%

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 13.8% 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 delivered a 6.8% gross return for January.

Armida Investment Corporation Ltd (AIK) was the largest positive contributor (~2.5%) as its share price continued to see-saw around the 18 cents per share level of the past few months. Given we are unaware of any change in circumstances, we repeat last month's commentary on AIK: *"We do not consider these moves to be related to value but rather market "noise". Key for us will be the release of the half year results, which will, for the first time, provide a consolidated picture of AIK's performance as an operating company, as opposed to an LIC-style reporting. We believe the half year will provide important baseline comparators for future reporting periods."*

Other share price moves were widely positive throughout the portfolio, with more than three quarters of the portfolio delivering positive returns. BlueScope Steel Ltd (BSL) contributed 0.7% to the month's result. We've taken profits from BSL during the second half of 2016 and into 2017, reducing the position from 12% of the portfolio to approximately 3.5% at the end of the month.

Our investment thesis for Warrnambool Cheese & Butter Factory Holdings Ltd (WCB) began coming to fruition in late January when controlling shareholder Saputo Inc. launched a takeover offer for the 11.9% of WCB it does not own. First, a quick recap of the background and our investment thesis: WCB first piqued Sandon Capital's interest in 2009 (before SNC existed) when it faced some difficulties following a cut to prices paid to farmers for milk. In late 2009, an indicative takeover proposal, rumoured to be at \$4.50, was rejected by the WCB Board. We thought the Board would come under pressure if the share price did not increase beyond \$4.50 after a reasonable amount of time.

Fast forward to 2013 when a heated three-way takeover battle began, during which we campaigned for a significant proportion of any winning bid's consideration to be in the form of fully franked dividends. Lion (part of the Kirin Group and owner of a number of dairy product brands) swooped in from left field to buy 9.9% of WCB at \$9.25 per share. As a result, Saputo's winning bid fell short of obtaining 90% of WCB, and as a result the consideration paid was \$9.40. Had Saputo obtained 90%, it would have paid \$9.60 per share. However, WCB remained listed as company. We considered that an opportunity as we thought it inevitable that Saputo would have to buy out minorities at some point if it were to enjoy all the fruits of ownership. The ability to pay fully franked dividends remained an attraction. SNC began accumulating WCB shares in February 2014.

Fast forward once more to January and Saputo lobbed an \$8.85 offer for WCB, recommended by the WCB Board. We are disappointed in both the price and the structure, since the current offer includes no special dividends. The jury is out.

Macmahon Holdings Ltd (MAH) was also the recipient of a takeover offer from CIMIC Group Ltd (CIMIC) for the 77% of MAH it does not own. The offer, at 14.5 cents per share, represents a 32% premium to the share price prior to the announcement but also an approximate 15% discount to MAH's net assets. Here too, the jury is out.

Investment Portfolio

	January 2017	December 2016
Listed Equities	97%	97%
Cash or Cash Equivalents	3%	3%
Number of investments	33	33

Sandon Capital does not habitually disclose the companies held in its investment portfolios or investment weighting within portfolios. Below is a list of recent substantial shareholder notices filed by Sandon Capital. Copies of the notices are available on the ASX website.

Latest ASX filing date	ASX Code	Company
23 Mar 16	CYG	Coventry Group Ltd
27 Apr 16	RNY	RNY Property Trust
13 Jul 16	OTH	Onthehouse Holdings Ltd
5 Aug 16	CND	Clarius Group Ltd
29 Aug 16	AGS	Alliance Resources Ltd
30 Sep 16	AIK	Armida Investment Corporation Limited
22 Dec 16	SCY NZ	Smiths City Group Ltd
29 Dec 16	FWD	Fleetwood Corporation Ltd

Note: Shares in companies were held by SNC as at the date of this report and may or may not be current beyond that date.

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:

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