

SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 30 June 2018

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 30 June 2018 were:

NTA before tax (ex-dividend)	\$0.9942	+3.0%
Deferred tax asset	\$0.0017	
Deferred tax liability on unrealised income and gains	(\$0.0394)	
NTA after tax (ex-dividend)	\$0.9565	+2.3%

Investment Performance

Gross Performance to 30 June 2018 ¹	1 Month	Financial YTD	Since inception ²
SNC	4.0%	13.1%	10.4%
All Ordinaries Accumulation Index	2.9%	13.7%	9.3%
Outperformance³	+1.1%	-0.6%	+1.1%

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

The Board anticipates being able to declare a final dividend for the period ending 30 June 2018 similar to the interim dividend, subject to prudent business practices and the availability of profits and franking credits. SNC has declared and paid 22.5 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	Corporate Tax Rate	Type
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	\$49.3m
Market capitalisation	\$45.5m
NTA before tax	\$0.9651
Share price	\$0.94
Shares on issue	48,435,427
Options on issue	nil
Fully franked dividends	\$0.07
Dividend yield	7.5%

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 12.2% 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 up 4.0% in June. Gross portfolio returns since inception are the equivalent of 10.4% per annum, compared to 9.3% per annum for the All Ordinaries Accumulation Index.

The main contributors to performance for the month were Specialty Fashion Group Ltd (SFH) and Fleetwood Corporation Ltd (FWD). Watpac Ltd (WTP) was the main detractor for the month.

The market continued to re-evaluate SFH during the month, with its shares up more than 40%. SFH is now seen as a growth story driven by its City Chic business, having shed its challenged retailing brands. SFH epitomises the opportunities that exist for investors willing to look and think beyond first impressions. For example, until very recently, SFH was almost always referred to as a “failed” or “struggling” retailer. Such comments were despite SFH’s financial position having begun to improve in early 2017. There is no doubt that the then status quo was unsustainable, but financial failure was not, in our opinion, on the cards. We believe the Board of SFH have engineered a good outcome for SFH and its shareholders. We remain excited about the opportunities ahead for the refocused City Chic business.

FWD’s share price recovered much of the previous month’s share price losses when the sale of the struggling (yes, this time it is an appropriate adjective) RV business was announced. The business was sold for \$1 million, and the ensuing sale of stock and shut down costs will cost FWD shareholders between \$12 million and \$15 million. Although we have been pushing this sale, we believe the board and management acted far too slowly after clear evidence of being incapable of turning the business around. Since we first called for a disposal of the RV business in 2016, by the time the RV sale and shutdown is completed, the cost to FWD shareholders will be close to \$35 million. Keep in mind, by the time we were calling for its sale, the RV division had already been losing money (viz \$8.1 million in FY16). A full accounting of the cost to shareholders of the RV business will not be known until the transaction completes but the running total is, in our view, sufficient evidence to hold management and the board to account.

After month’s end, Mineral Deposits Limited’s (MDL) hostile French suitor Eramet, declared its offer unconditional. Immediately prior to completing this monthly report, the MDL Board, having regard for Eramet’s increased holding in MDL and the likelihood they will obtain control, have recommended shareholders accept the Eramet offer. We will reluctantly follow the Board recommendation. We maintain our view that MDL is worth more than \$2.00 per share, but as enough shareholders have accepted Eramet’s Offer, control will pass to them imminently. We congratulate the MDL Board and management team for having done such a great job.

Our initial plans for MDL back in 2016 were thrown out the window after our first meeting with management. In general, resource executives have scant acquaintance with notions of shareholder value, however we were pleasantly surprised to hear MD Rob Sennitt speak our language! Although the share price represented a significant discount to value, there was no need to engage our activist techniques, as management had a clear plan.

The Fund first acquired MDL shares at \$0.26 per share in mid-2016 when there were questions over the high debt levels at MDL’s TiZir joint venture. We then encouraged and participated in the 2017 capital raising at \$0.42 per share. The sale will lift the Fund’s cash levels by just over 10%, to approximately 23% (all other thing remaining equal). The Fund will be well placed to capitalise on any future opportunities.

Investment Portfolio

	June 2018	May 2018
Listed Equities	97%	96%
Cash or Cash Equivalents	3%	4%
Number of investments	31	28

Contact

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

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