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Sandon Capital

'Ever since 1934 we have argued in our writings for a more … energetic attitude by stockholders toward their management'

Ben Graham, The Intelligent Investor

FY18 Results Presentation

November 2018

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Agenda

- Result highlights
- Dividends
- Investment performance
- Our shareholder activist approach
- Investment objectives and outcomes
- Current activities
- Activist highlights
- Case Studies
- Outlook

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SNC FY18 Result highlights

- Revenue $6,052,710
- NPAT $3,356,443
- Dividend yield of 7.6% (10.5% grossed up)[1]
- Final fully franked dividend of 3.5 cents per share declared and paid
  - SNC has declared and paid 26.0 cents per share of fully franked dividends since listing
- 5.3% reduction in corporate costs

1. Assumes market price of $0.92 on 9 November 2018. Fully franked dividends declared include the 3.5 cps final dividend paid on 2 November 2018.

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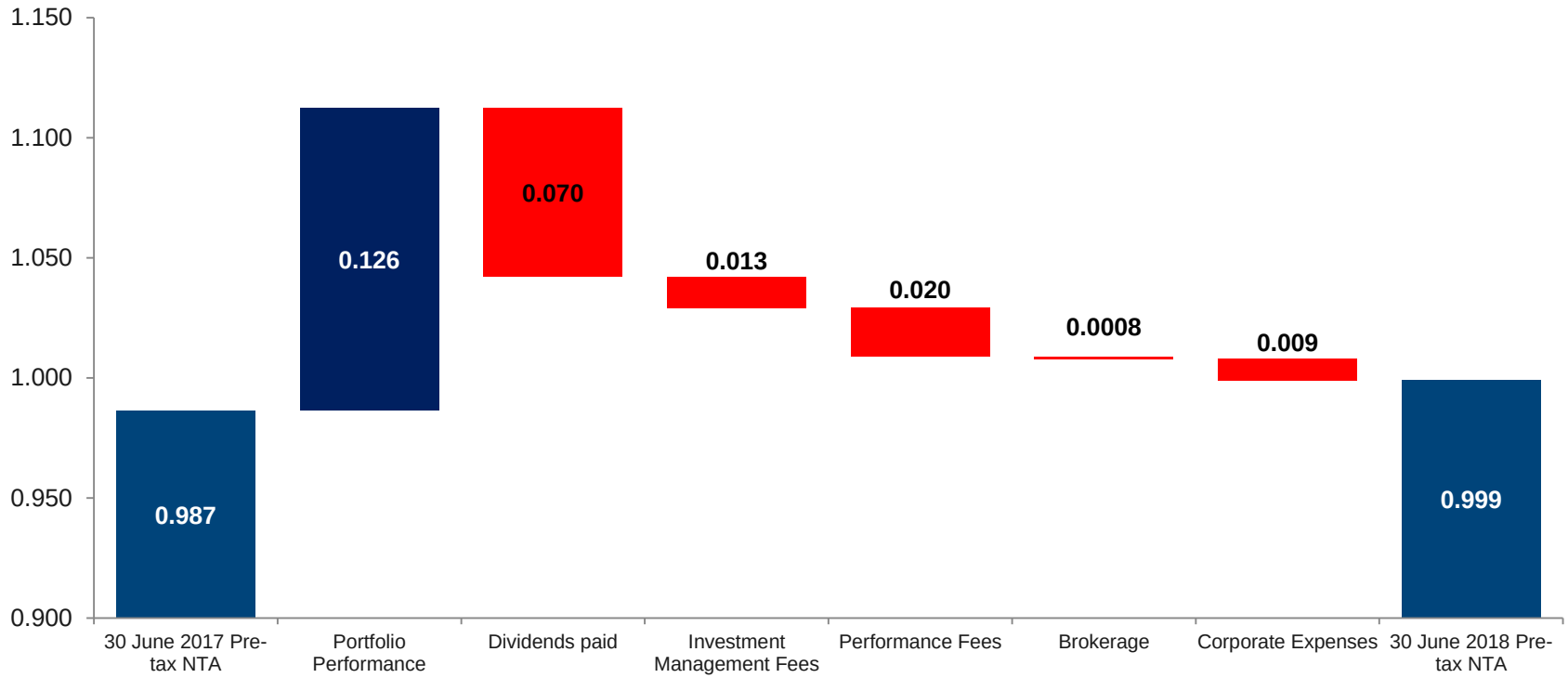
FY18 result composition



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Dividends

- Directors have maintained the final dividend at 3.5 cents per share
- Directors intend declaring a interim dividend of a similar amount to the final dividend[1]
- SNC has profit reserves of 6.2 cps as at 31 October 2018, from which directors can resolve to pay future dividends[1]
- SNC will have franking of at least 2.9 cps by the end of FY19[2], which would allow for the payment of at least 7.0 cps in fully franked dividends[1].
- SNC shares offer an attractive yield of 7.6% (10.5% grossed up for imputation credits)[3]

1. Provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice.
2. Including existing franking and franking that will arise from payment of the FY2018 tax return.
3. Assumes SNC share price of $0.92 on 9 November 2018.

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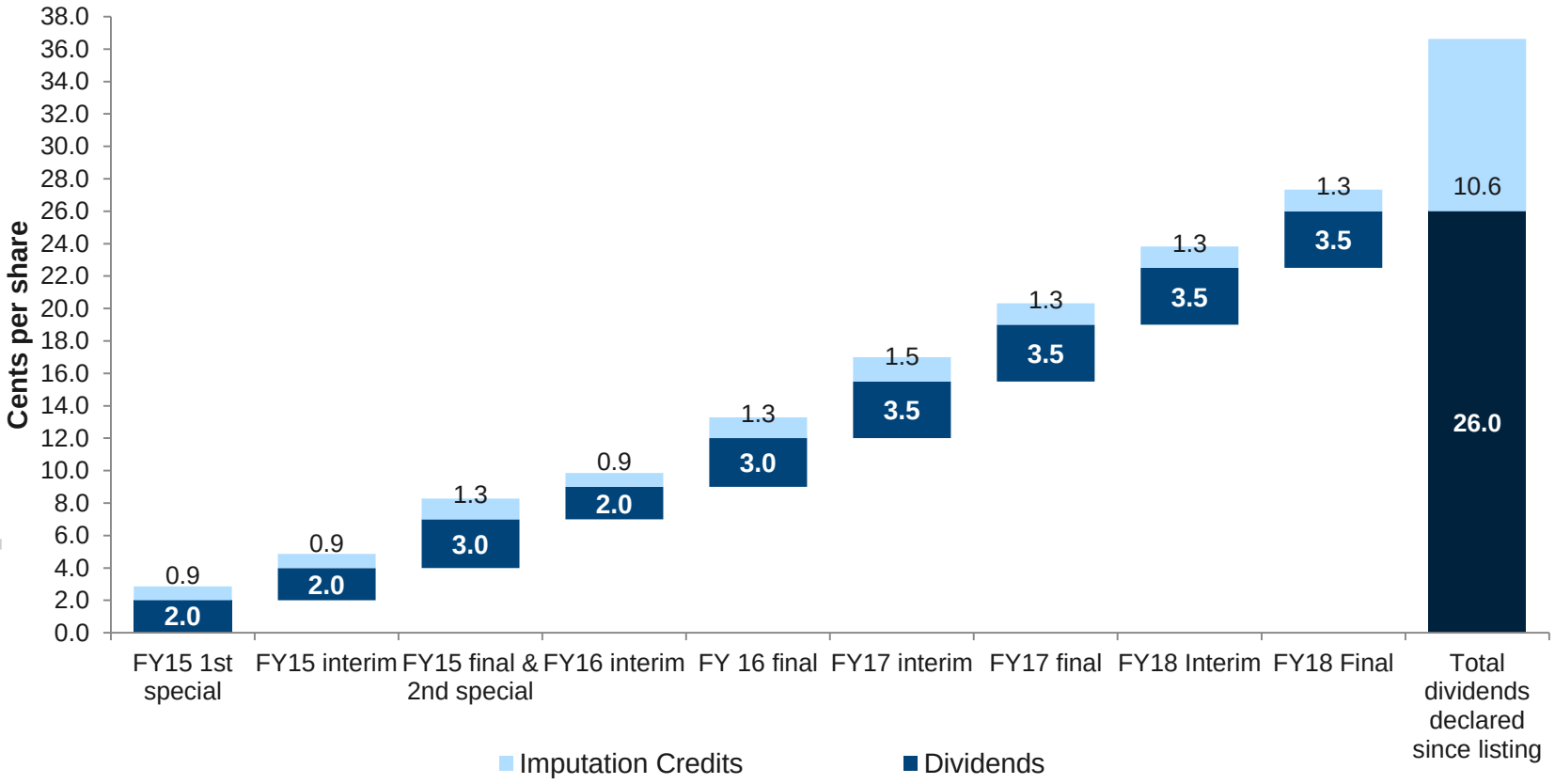
Dividends

- Dividend policy is to pay a growing stream of fully franked dividends



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Investment performance to 31 October 2018

Gross Performance	1 Month	Calendar YTD	1 Year return	2 Years return (p.a.)	Since inception (p.a.)
SNC	**-5.1%**	**6.1%**	**11.8%**	**9.1%**	**10.0%**
All Ords Accumulation Index	-6.5%	-0.5%	3.1%	9.1%	7.6%
Outperformance	**1.4%**	**+5.6%**	**8.7%**	**0.0%**	**+2.4%**

- Return characteristics:
  - Returns above market
  - Lower volatility than the market 8.9% vs 11.0%

1. The SNC and index returns are before all fees and expenses and before any taxes. SNC returns are after brokerage expenses incurred. Dividends paid during the period are included when calculating SNC's gross investment performance.
2. Note past performance is no indication of future returns.

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Our shareholder activist approach

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- We are a 'Value Investor'
- We seek to purchase investments:
  - At prices below our assessment of their intrinsic value, and
  - Where we believe we can apply our activist techniques
- When we invest our intention is to actively engage with the company
  - We don't try to passively predict the future, by engaging we are actively trying to shape the future
- Our investors capital is precious, we will not put it at risk for the sake of being fully invested
  - We typically hold a significant amount of cash in our portfolios – but not currently
  - We have ~10% of the portfolio in event-driven and run-off opportunities – these will turn to cash in due course
  - That cash will allow us to take advantage of opportunities

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Investment objectives and outcomes

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- Sandon Capital Investments Limited's objectives are to:
  - Provide an absolute positive return over the medium- to long-term
  - Preserve shareholder capital
  - Deliver regular and growing dividends, franked to the fullest extent possible[1]
- Sandon Capital Investments Limited outcomes are:
  - Positive absolute returns
    - Gross return of 10.0% per annum since inception during challenging market conditions[2]
  - Capital preservation
    - Pre-tax/Post-tax NTA up 28.0% / 23.3% respectively[3]
  - Regular and growing dividends paid
    - Declared and paid 26.0 cents per share in fully franked dividends since inception

1. This is not intended to be a forecast. It is merely an indication of what SNC aims to achieve over the medium to long term (that is, 3 to 5 years). SNC may not be successful in meeting its objective. Any financial market turmoil or an inability by the Manager, Sandon Capital Pty Ltd, to find and make profitable investments will likely have an adverse impact on achieving this objective. Returns are not guaranteed
2. Gross returns to 31 October 2018.
3. Pre- and Post-tax NTA from 16 Dec 2013 to 31 October 2018, including dividends paid. This figure is not annualised. Annualised figures are 5.1% and 4.4% respectively.

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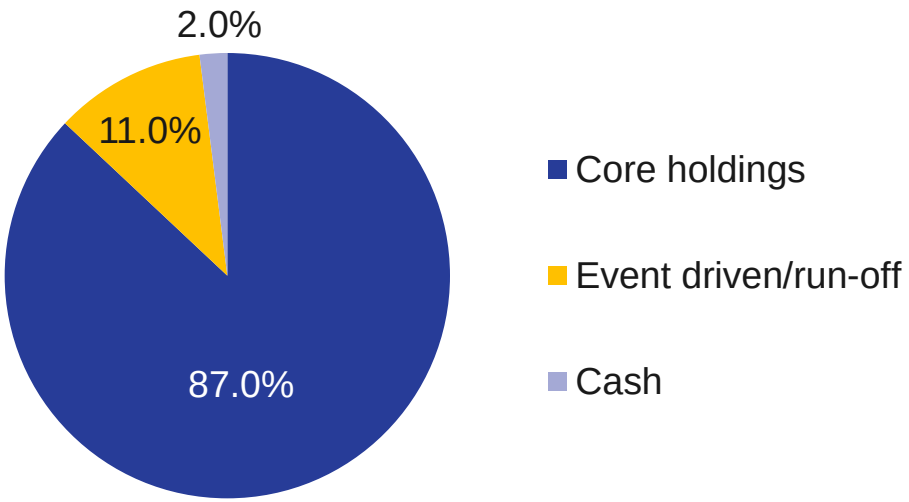
Current activities

- Market conditions are fertile for our investment approach
- We are building positions in several companies where:
  - Shares are trading below:
    - cash backing, and/or
    - our assessment of intrinsic value
  - Strategic focus is needed
    - i.e. diverse companies that need to streamline and companies that need to spin-off valuable assets
  - Companies whose corporate governance & management could do with improvement



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Activist highlights during the past 12 months

- Sandon Capital Investments Limited (SNC) has been engaging companies throughout 2018, both behind closed doors and publicly
- Public engagements include:

Name	Thesis/value outline	Engagement
Fleetwood Corporation Ltd Mkt Cap >$200m (FWD)	Discount to intrinsic value, need for board changes, strategic rationalisation	A long-running campaign, FWD has enacted most of the changes we have called for, though far too slowly and not before losing significant amounts of money. We remain sceptical of the current board and management. **Work in progress.**
Specialty Fashion Group Ltd >$200m (SFH)	Discount to sum-of-parts and mooted corporate action	Sandon Capital has been actively involved with SFH, including putting forward an underwritten recapitalisation proposal and capital management suggestions. SFH sold, favourably, its challenged businesses and is now is a focused single brand omni-channel retailer, with what we believe is significant growth potential. **Harvesting phase.**
Watpac Ltd <$200m (WTP)	Discount to intrinsic value, need for board and executive changes	Sandon Capital accumulated a stake in WTP with a view to seeking board and management changes. We also saw merit in disposing of WTP's underperforming mining services division. Largest shareholder BESIX's proportional takeover attempt forced us to pivot to prevent their low-ball offer from succeeding. The scheme was voted down. BESIX have returned with a full unconditional takeover offer at the same price ($0.92). We are disappointed with WTP's independent directors' recommendation to accept the offer. We are yet to decide whether to accept or not. **Work in progress.**

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Case study – AIMS Property Securities Fund (ASX: APW)

- APW trades at a persistently large discount to NTA ($1.80 vs $2.37)
- Sandon Capital has partnered with Samuel Terry Asset Management to call for a winding up of APW
- Our APW thesis:
  - Trades at a significant discount to NTA
  - Underlying properties are attractive
  - A lack of transparency on fees and significant related party transactions cloud the value of APW
  - A good time to sell:
    - AIMS Chairman Mr George Wang believes "*the real estate cycle is at a high point*"[1]

1. APW 2018 Annual Report

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Case Study – Spicers Limited (ASX: SRS)

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- Spicers is the phoenix that has risen from the ashes of PaperlinX
- Paper merchant in Australia and NZ
  - Sale of Asian business announced
- Recapitalised Balance Sheet with hidden assets
  - Return of capital proposed, subject to shareholder approval
- Slimmed down operations that are now profitable
- New Board & Management team with shareholders well represented
- This phoenix has wings…

Corporate Activity – MA1 Merger Proposal

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- SNC made an indicative, non-binding merger proposal to Monash Absolute Investment Company Ltd (ASX:MA1) on 8 October 2018
- The proposal would have allowed SNC to make a gain in its investment in MA1 shares and would have provided it with the opportunity to grow by issuing SNC shares at NTA (ie with no dilution).
- SNC saw the proposal as compelling for MA1 Shareholders as it offered them the potential to exit at NTA in either cash or SNC shares[1]
  - MA1 Shares have traded at a large, persistent discount to NTA
  - Approximately 50% of MA1 Shares were tendered into its off-market buy-back.
- MA1 rejected the proposal, preferring to continue while attempting to narrow the discount to NTA.
- SNC remains a shareholder, lurking…

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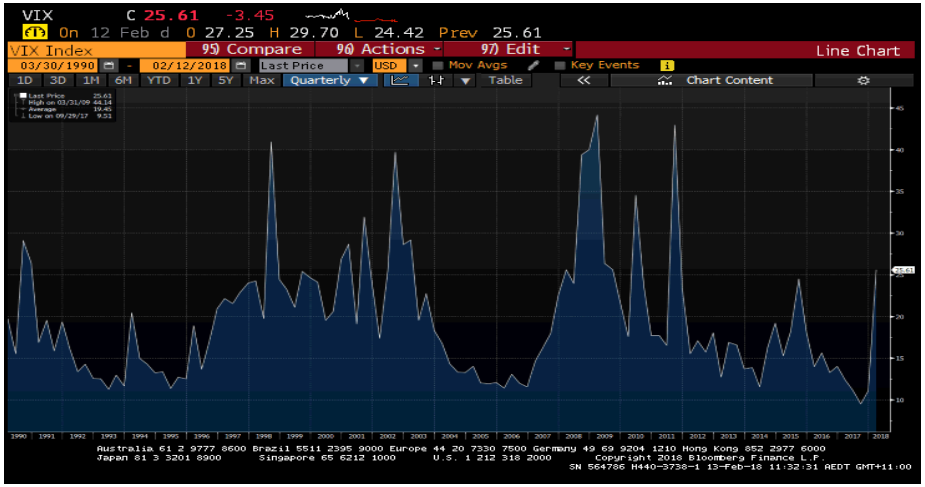
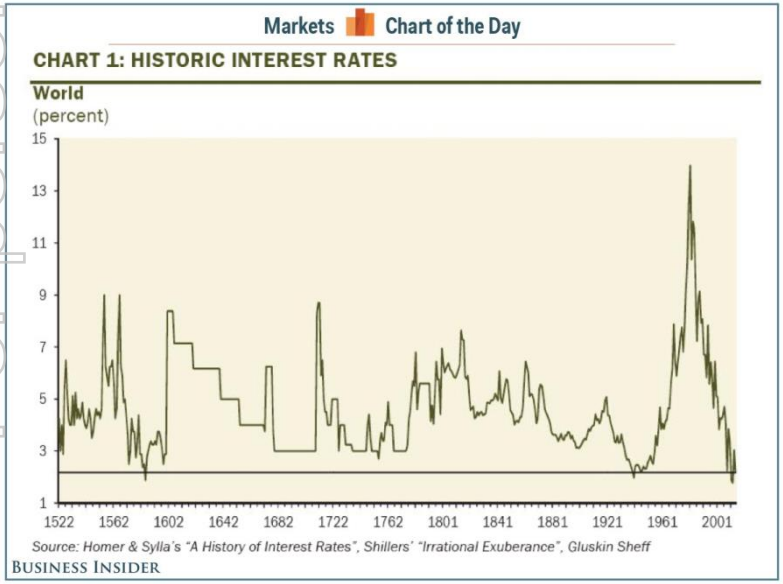
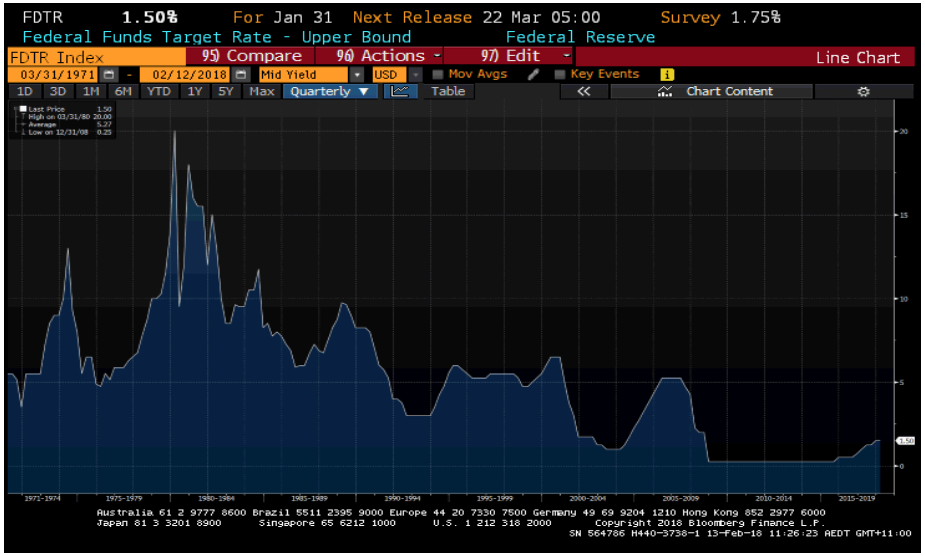
Rising interest rates = caution?

- Valuation 101: inverse relationship between price and yield
- For many investors:
  - Rising interest rates are a “new” phenomenon and
  - Inflation is a theoretical concept







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Outlook

- We expect volatility and uncertainty in global financial markets have become the new normal
- Key themes driving volatility:
  - China – regional aims/boom/bust?
  - US – President Trump/rising interest rates?
  - Australia – banking royal commission/interest rates?
- We will continue to invest at prices below intrinsic value and apply our activist techniques
- We believe our fundamental approach will continue to uncover attractive opportunities with shareholder activism unlocking value

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About us

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