SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 30 June 2020

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 30 June 2020 were:

NTA before tax	**$0.7395**	**-4.5%**
Deferred tax asset	**$0.0203**	
Deferred tax liability on unrealised income and gains	**($0.0001)**	
NTA after tax	**$0.7597**	**-1.9%**

Investment Performance

Gross Performance to 30 June 2020[1]	1 Month	Financial YTD	Since inception[2]
SNC	-1.8%	-12.3%	5.7%
All Ordinaries Accumulation Index	2.3%	-7.2%	6.9%
Outperformance[3]	**-4.1%**	**-5.1%**	**-1.2%**

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

SNC has profits reserves equivalent to 1.1 cents per share and franking of approximately 11.3 cents per share (in each case, after the payment of the most recent dividend).

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*	**$104.4m**
Market capitalisation	**$64.1m**
NTA before tax	**$0.7395**
Share price	**$0.5900**
Shares on issue	**108,624,261**
Options on issue	**nil**
Fully franked dividends	**$0.035**
Dividend yield (6-mths)	**5.6%**
Profits reserve (per share)	**1.1 cps**
Franking (per share)	**~11.3 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 9.6% 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 1.8% for the month, on a gross basis, before all fees and expenses, compared to an increase of 2.3% for the All Ords Accumulation Index. The underperformance of the pre-tax NTA (-4.5%) relative to the gross performance of the portfolio (-1.8%) and post-tax NTA (-1.9%) was due to tax benefits arising from unrealised losses being brought to account at financial years' end in SNC's subsidiary, Mercantile Investment Company Ltd.

The main detractors to June's returns were Spectra Systems Corp (SPSY), Coventry Group Ltd (CYG) and Fleetwood Corporation Ltd (FWD). These were only partially offset by strong performances from Infigen Energy Ltd (IFN) and Consolidated Operations Group Ltd (COG).

The share price of SPSY fell >13% as it was underbid for a new contract with an Asian Central Bank for taggants and sensors. Whilst it is disappointing that SPSY was underbid by an aggressive competitor, we believe the company's market leading technology will continue to be sought after by major and multi-year clients who value the combination of superior technology and an attractive price, as opposed to simply price alone. This was in evidence last week when the company announced that it has executed a new contract with a major world central bank to enhance existing authentication sensors to detect a unique type of counterfeit notes. The share price has subsequently recouped more than half of June's losses and with the company retaining a >US$100m pipeline of prospective opportunities, the future continues to look bright.

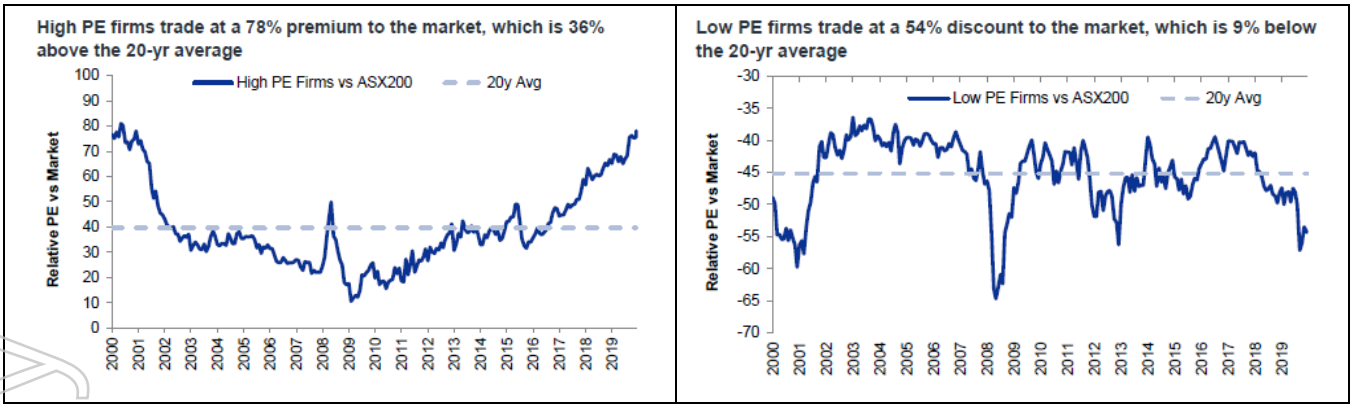
Funds managed by Sandon Capital have been investors in IFN for almost two years. Over that time, the Board and executive team have done a very good job of managing the company, both operationally and financially. Despite this, the company's shares had remained significantly undervalued when compared to other listed utilities and private market control transactions for wind farms. As has been a common occurrence in a number of our investments over the years, a bidder will invariably emerge if the capital markets persistently undervalue a company, especially those with highly cash generative assets and strategic value. In the case of IFN, a bidding war erupted during the month and the shares rose more than 50%. The first bid, from UAC Energy Holdings Pty Ltd (UAC), proposed an all cash offer priced at 80 cents per stapled security. Two weeks later, IFN announced that it was recommending a competing takeover offer from Spanish-backed company Iberdrola Renewables Australia Pty Ltd (Iberdrola) at 86 cents per share. Upon UAC raising its offer price to 86 cents per share and freeing its bid from all conditions, Iberdrola quickly followed by increasing its offer to 89 cents per share as well as freeing its bid from most conditions. Both bidders have obtained Foreign Investment Review Board (FIRB) approval and have acquired an interest in IFN shares. Iberdrola's bid has the support of IFN's largest shareholder, The Children's Investment Master Fund and CIFF Capital UK LP (together the TCI Funds), by way of a pre-bid agreement. The TCI Funds have the ability to accept a higher offer, if it is unmatched by Iberdrola. This would seem to put Iberdrola bid in the box seat, but we believe there is a way to go before a final offer is settled upon. The market seems to have come to the same conclusion given IFN shares are currently trading above Iberdrola's highest bid of 89 cents per share.

COG's share price rose 37% over the month. In a mid-month trading update, COG advised that its Finance Broker and Aggregation Segment had "*exceeded the Company's expectations given COVID-19 and performed solidly during the H2 reporting period…*". Given COG management have traditionally been conservative about future prospects, the end result for FY20 may prove to be even better than the encouraging update. COG also announced that it had secured the opportunity to acquire further shares in Westlawn Finance Limited (Westlawn). The first tranche will take their holding to 51%, from ~32% currently. The second tranche provides an option for COG to further increase its holding to 75%. COG explained the strategic rationale for the increased investment is for Westlawn to become the main funding vehicle for COG's lending activities. COG also plans to expand Westlawn's capabilities to include the establishment of a managed investment scheme to increase funds under management. This will allow COG to expand its lending operations without raising additional capital to support lending growth. Historically, Westlawn has raised funds for its lending activities by way of unsecured notes. In its latest prospectus for unsecured notes issued in late 2019, Westlawn disclosed assets including cash holdings of $41m and total loans outstanding in excess of $175 million from more than 6700 loans. We believe Westlawn will become an increasingly valuable contributor to funding COG's growth as the strategy develops.

During June, financial markets around the world seemed to continue to shake off any worries about COVID-19 and its economic fallout, despite worsening statistics, particularly in the US and South America. We've previously said we are not epidemiologists and do not propose becoming amateur(ish) ones. That said, there are plenty of reputable and renowned experts whose analysis can be read and understood. Clearly, the health risks of COVID-19 are not over. First waves of infection continue to rise (viz USA) and second waves are emerging in Europe and closer to home in Melbourne. These risks should not be ignored. We continue to believe a new normal will be found, though we don't know when.

When it comes to financial markets, and equities in particular, it seems to us investors are behaving as though there are two types of companies, those whose growth prospects are seen as unimpeachable (mainly, but not limited to, tech businesses) and the rest of the market. Insightful analysis by Goldman Sachs' Australian strategy team showed that as forecast earnings for S&P/ASX 200 companies fell by 23% over FY20, the valuation of the index increased by 16%.

We understand that falling interest rates have had an effect on valuation, but what concerns us most is the decline in earnings. Even prior to COVID-19, corporate earnings for the first half of FY20 were weak. The pandemic simply tipped many over. What GS analysis also shows is an increasing bifurcation of valuations amongst companies. High PE companies are now trading at extreme premiums to their 20-year average, just as low PE companies are trading at historic discounts to those averages.



Source: Goldman Sachs Portfolio Strategy Research

We believe the market is overpaying for perceived growth and safety. Future returns from buying such companies at current prices are likely to be far lower than expected by those buying. Our caveat to this statement is to borrow partially from one of J M Keynes' famous comments by saying the market for such companies can remain irrational longer than one might expect.

Despite the challenges of applying a value-based investment approach in this environment, we remain committed and convinced this is the best way of delivering consistent long term returns. Underperformance remains a risk, but to recant and invest in momentum and growth would present an unacceptably high risk of permanent capital impairment.

We continue to accumulate shares in a number of new companies which we look forward to discussing at some point in the future.

Investment Portfolio

	June 2020
Listed Australian Equities	69%
Listed International Equities	14%
Unlisted investments	16%
Cash or Cash Equivalents	1%

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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