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Shareholder update

Dear Shareholders,

Global financial markets continue to reflect anxiety, fear and at times panic arising from the COVID-19 pandemic. This environment presents both threats and opportunities. We have sought to understand where both might lie for our portfolio of investments.

We do not know how far or wide the pandemic will spread nor can we reliably predict the economic consequences.

We do know that the world and its economy will at some point return to normalcy. Indeed, depending on the extent of the economic downturn, the rebound in economic activity is likely to be quite sharp. Until that happens, we are all operating in highly uncertain times. That uncertainty is though by no means cause for despair.

We are observing significant mispricing in equity markets. Some companies, whose underlying prospects remain solid, have been sold down to prices far below any sensible estimate of their value. We have begun slowly buying a few such investments. Others, regrettably have been severely affected and their value, especially that of their equity will likely be impaired.

We have undertaken a review of our largest investments, with a view to assessing how they can deal with the economic downturn. This exercise by no means guarantees an outcome, but it does provide some insights. We have spoken with the CEOs or the Chairs of these companies about the steps they are taking to deal with the economic situation. None are taking the situation lightly, which is comforting. We have also impressed upon them that times like this deliver opportunities which they should attempt to seize.

The bulk of our portfolio is exposed to what we describe as the industrial economy, rather than the consumer economy. This industrial economy provides exposure to sectors that we believe will be among the first to benefit from government stimulus.

The companies in which we have our largest positions have low debt levels. As equity holders, this means we face less risks to their solvency. Most of these companies also have a significant proportion of their expenses as variable costs, rather than fixed costs.

We also have a number of our largest investments that have limited exposure to the COVID-19 pandemic and its economic consequences. For example, Spectra Systems Corp., our largest position, provides advanced technology solutions for banknote and product authentication and gaming security. Its banknote customers are central banks around the world.

Some companies listed on the ASX will be affected by the pandemic and its economic fallout. Those in the travel, tourism, education and consumer discretionary sectors are likely to be hardest hit and unfortunately

there will likely be some corporate casualties. We have very little long exposure to these sectors in our portfolio. Indeed, one of our long-standing short positions is exposed to travel.

We've provided some commentary on ten of our largest investments, which is attached to this letter as an appendix. These represent approximately 60% of the portfolio.

Dividends

We know our shareholders value their dividends. SNC has declared 12 consecutive dividends since inception, totalling 36.5 cents per share with 14.6 cents per share in imputation credits attached.

On 27 February 2020, the Board declared a 3.5 cents per share fully franked dividend. The ex date for this dividend is 5 May 2020 and it will be paid on 28 May 2020. The DRP will apply. Although we would prefer to retain cash to invest in current market conditions, shareholders will receive this dividend. The DRP will apply, and we encourage shareholders to consider reinvesting this dividend.

In the past, we have typically indicated what future dividends might be, subject to availability of profits, franking and prudent business practice.

Given the current economic and market turmoil, the Board does not believe it appropriate to provide such guidance or indication. Payment of any final dividend in respect of the 2020 financial year will be considered in light of SNC's full year results and market conditions at that time.

Shareholder Conference Call

The shareholder conference call that will replace the face to face shareholder meetings will take place at 10.30am on 15 April 2020. This will be shortly after the release of the March NTA announcement. Dial-in details will be provided in a separate invitation. We will also provide a presentation to accompany that call.

Conclusions

It's only when we look back at some point in the future that we will be able to pinpoint when the nadir was reached in capital markets. No-one will ring a bell at the bottom, and when the collective market has confidence that the worst of the COVID-19 pandemic has passed, share prices are likely to be materially higher than they are today. During the GFC in 2008/2009, the S&P500 index bottomed at 676 on 9th March 2009. It wasn't until at least three months later that we received confirmation that the worst of the economic downturn had passed. By that time, equity markets had begun to recover and the S&P500 index was almost 50% higher. Similar trajectories were seen in many other share markets around the world, including Australia.

The >30% falls seen in global share markets over the past month may mean we are near the bottom, however there may also be further downside. We just don't know. However, what we do know is that this environment is providing us with the opportunity to establish new positions and add to existing positions where the long-term prospects for these businesses are significantly better than what is being discounted in current share prices.

It is also worth noting that the SNC portfolio (and the MVT portfolios) have been painstakingly put together over many years, with many positions accumulated over many months, if not years. Unlike many other investments, where positions can be acquired overnight, even in today's market, it would be impossible to accumulate such holdings at anywhere near current market prices. We believe this represents significant

value to SNC shareholders. This value will be realised in the fullness of time, despite the current upheaval in markets.

In this context, we remain committed to our activist value investment philosophy. We invest with a medium to long term outlook. This is how we are attempting to navigate through this turmoil. We are not attempting to predict when this turmoil might come to an end.

We have been slowly and carefully buying into some investments we consider offer good prospects. We expect to do more over coming weeks and months. We are expecting nearly 10% of the portfolio being returned in cash over the coming months, which will provide further opportunities to invest.

We believe the declines in equity markets are providing opportunities that will, in years to come, prove exceptionally profitable.

If you have questions or would like to discuss the portfolio, please do not hesitate to contact me at 0408 936 357.

Yours Sincerely,

Gabriel Radzyminski
Chairman
Sandon Capital Investments Limited

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Appendix – Commentary on Key Investments

We have reviewed our key positions to satisfy ourselves they have the ingredients not just for survival, but to prosper when the eventual rebound arrives. Our assessments by no means guarantee the outcomes. Some of the business fundamentals we have looked at include debt levels, the proportion of costs that are variable versus fixed and the types of clients and customers, amongst others. We've also considered what the prospects of these companies might be as the global economy emerges from the effects of COVID-19. In many instances, we expect our portfolio companies to emerge out the other side in better shape than they were before the global pandemic surfaced. Some will see competitors fall by the wayside; some will see new market opportunities open up, whilst others will have competitors that will lose sight of their underlying businesses as they are focused on dealing with the fallout from the global pandemic.

Individual investment commentary

Below is a list of ten key investment holdings as measured by current market prices. Together, these investments represent approximately 60% of the value of the investment portfolio.

Ticker	Name	Approx. Weighting
SPSY LN Equity	Spectra Systems Corp.	9.8%
FWD Equity	Fleetwood Corporation Ltd	9.2%
Unlisted	Foundation Life	7.2%
MGC Equity	MG Unit Trust	6.2%
Unlisted	CM Capital Venture Trust 4	5.3%
YBR Equity	Yellow Brick Road Ltd	4.5%
ILU Equity	Iluka Resources Ltd	4.5%
Unlisted	Onemarket Ltd	3.9%
CYG Equity	Coventry Group Ltd	3.5%
COG Equity	Consolidated Operations Group	3.1%

Spectra Systems Corp. (Spectra)

Brief description

Spectra is a US corporation listed in the UK. The company provides advanced technology solutions for banknote and product authentication and gaming security. Its banknote customers are central banks around the world.

Current status

On 23rd March, Spectra announced its results for the year ended 31 December 2019. It reported an 8% increase in revenues and a 6% increase in earnings. The company also announced a special dividend and guided to a significant pipeline of growth opportunities that have not been impacted by the current turmoil. Most of Spectra's revenues are from fixed term contracts that are largely immune from the current pandemic. The special dividend indicates Spectra Board's confidence in the short and long-term future of the company.

Financial status

AT 31 December 2019, Spectra had USD27 million of net assets, of which USD14.5 million is held in cash. It has no debt. As noted above most of Spectra's are derived from long term contracts.

Spectra's shares have fallen significantly from their January 2020 highs. This decline would appear to be unrelated to the fundamentals for the company. Spectra is our largest shareholding and provides valuable USD exposure (whilst the shares are listed in the UK, in the company's functional currency is USD).

Fleetwood Corporation Ltd (FWD)

Brief description

FWD operates across 3 business divisions:

- Building Solutions: FWD operates the largest modular construction business in Australia. It provides manufactured accommodation units for education, corrections and affordable housing.
- Accommodation Solutions: Owns and operates an accommodation village at Karratha (Searipple) and manages another in South Hedland (Osprey). These villages provide accommodation mainly to the resources sector.
- RV Solutions: provides parts, accessories and services to the recreational vehicle market.

Current Status

FWD delivered a poor result for the half year ended 31 December 2019. Sandon Capital has been advocating for changes at FWD since 2015. Some of these changes have, belatedly and partially, been enacted but by no means have these gone far enough.

Given the current market turmoil, there is a possibility that some major resources projects in and around the Karratha region may be delayed following the fall in oil prices. Any reduction in activity in the region may impact occupancy levels at Searipple, and hence earnings.

Ultimate clients for the Building Solutions division are predominantly from the government and non-government sectors. We would expect that these sectors will be beneficiaries of government stimulus activities.

Financial Status

FWD reported net cash of $20.1 million as at 31 December 2019. It also reported $65 million in unutilised financing facilities. A significant proportion of FWD's costs are variable, which means they should be able to reduce costs materially in the event that revenues fall significantly.

FWD's current assets exceed its total liabilities by more than $48 million. Despite our negative views of management, the balance sheet is robust and we believe it is well placed to withstand a protracted slow-down.

Foundation Life

Foundation Life has been undertaking preparations for its restructure and ultimate wind up. The Manager had moved portfolio assets into cash (from equities) and fixed income assets were adjusted so that asset duration largely matches liability duration. As a result of these changes, the Foundation Life investment has been largely insulated from recent market dislocations. The Manager has also undertaken stress tests of the life policies for NZ regulators to ensure policy obligations can be met.

Market movements will likely push out the restructure timetable by at least one quarter, but with limited impact on the final investment outcome. We anticipate further information from Foundation Life over coming weeks as more information regarding the restructure is settled.

MG Unit Trust

Brief description

MG Unit Trust provides exposure to cash proceeds received when Murray Goulburn's operating assets were sold in 2018 to Canadian diary company Saputo, Inc. There were two class actions filed as a result of losses, and MG unit trust has settled these. Part of the settlements will be funded by insurance claims. We expect distributions from MG Unit Trust in the next 3 months.

The returns from MG Unit Trust are unaffected by the current pandemic, though any closures of the court systems may impact timing, though not quantum.

CM Capital Venture Trust 4

Brief description

CM Venture Trust 4 is a private equity fund in run-off. The holding was acquired in 2018 when Mercantile acquired IPE Limited. The assets remaining in the fund are all healthcare related. The current turmoil in financial markets is likely to impact the realisation of assets as transactions are delayed or deferred. One of the remaining investments, SpeedDX, manufactures respiratory infectious disease tests, including flu testing. We are advised that SpeedDX is developing a COVID-19 test, which the company anticipates will be available before the end of 2020. The company recently completed a USD15m fund raising and we are also advised that the company's revenues are growing and has sufficient working capital to withstand a prolonged economic downturn.

The other main investment, Piedmont Animal Health, conducts research and development of pharmaceuticals for companion animals. The company has been put up for sale, but the current uncertainty in capital markets will delay this process. Piedmont recently raised USD50M from Sumitomo of Japan, providing it with at least 3 years of cash. Overall, we remain comfortable with the prospectus for this investment.

Yellow Brick Road Limited (YBR)

Brief description

YBR is a mortgage broker and aggregator. The majority of its revenue comes from trailing commissions and upfront commissions on origination of new mortgages. YBR has also recently finalised an arrangement that has allowed it to commence providing its own mortgages via a wholesale warehouse and securitisation facility. They have approved their first loans, though pace of new loans will slow due economic conditions. Fortunately, YBR does not yet have a significant cost base in this business.

Current status

YBR's income is likely to be affected by any downturn in residential mortgage originations. We expect that YBR's ambitions to issue its own mortgage products will be delayed as a result of the pandemic, though given the funding is in place, we expect they will be able to accelerate this programme when market conditions permit. The business case for mortgage warehousing remains sound in the medium term, once current uncertainty dissipates.

Financial status

The majority of the value in YBR today, aside from its broker network, is in the rights to trailing commissions from existing mortgages. As at 31 December 2019, the net value of these trailing commissions was in excess of $43 million. We expect that as economic conditions worsen, homeowners are less likely to repay existing mortgages ahead of schedule. Given the banks' response to financial hardship, we expect the life of the YBR mortgage book to extend, and hence the value may well increase. This obviously does not account for any defaults, which at this stage we believe cannot be reliably estimated. YBR has a small corporate debt facility, most of which is non-current. It reported net cash of approximately $4.1 million as at 31 December 2019. It also has received an $18 million cash injection from Magnetar Capital for a 50% stake in Resi Wholesale Funding Pty Ltd, which places it in good stead for working capital and warehousing funding of its own mortgages when market conditions permit.

Iluka Resources Ltd (ILU)

Iluka (ILU) is the major producer of zircon globally and largest producer of high-grade titanium dioxide products – rutile and synthetic rutile. The company also has an iron ore royalty associated with BHP Billiton's Mining Area C (MAC) province in Western Australia

Current Status

ILU announced with its CY19 result that it intends to demerge its MAC royalty business subject to shareholder and other approvals. Sandon Capital has long advocated for this to occur. We expect the valuable iron ore royalty will be more highly valued by the market as a standalone entity than it has been whilst housed within a cyclical and capital intensive mining company. Despite the recent downturn in almost all asset and commodity markets, the iron ore price has remained resolute above USD80/t. As a result, the royalty will be generating significant free cash flow for ILU. This will further buttress the balance sheet prior to the demerger of the royalty later this year (upon expected approvals).

The mixed market conditions experienced in 2019 in the mineral sands markets are expected to continue into 2020. Economic uncertainty in China and globally stemming from the recent COVID-19 outbreak are expected to weigh on business sentiment in the short term. This is likely to impact zircon demand in particular. For high grade titanium feedstocks, supply tightness and solid underlying conditions being reported by pigment producers should support revenue and earnings for the foreseeable future.

The company has a degree of revenue certainty in the high-grade feedstock market, due to contracts that have recently been agreed with customers. ILU has take-or-pay contracts with a range of customers for 2020 which, together, aggregate to a minimum of approximately 320kt (around 70% of guided high-grade feedstock production in 2020).

As most of its products are priced in USD, the recent rapid depreciation of the AUD/USD exchange rate should help to partly offset any price or volume weakness ILU sees in its zircon end markets. This will also positively impact high grade feedstock revenues given take-or-pay contracts are fixed in USD.

Financial Status

ILU reported net cash of $43m at 31 December 2019. The company has unutilised debt facilities of $519m that are available to tap in the event that further funding is required.

The company has guided to low levels of capital expenditure of $135m in 2020. The strong balance sheet and low levels of capex place the company in a solid position to weather any protracted downturn in the global economy.

OneMarket Ltd (delisted)

OneMarket was placed into liquidation in December last year. At the time, an interim distribution of $0.88-0.94 per share was expected to be paid by the end of the March quarter 2020.

According to the liquidators, the time frame for payment of the interim distribution has been pushed out to May. OneMarket's cash is held in USD and has not been hedged. The initial distribution was calculated at an exchange rate of $0.6860. Using an exchange rate of $0.60, we estimate an increased interim distribution of between $1.00-1.07 per share, all other things being equal.

Coventry Group Ltd (CYG)

Coventry supplies industrial products and services to the mining, manufacturing, construction, agriculture and defence industries through their 2 divisions:

(i) Trade Distribution, which distributes fasteners and other industrial products through a network of 48 branches in Australia and 16 branches in New Zealand

(ii) Fluid Systems, which designs, manufactures, and supplies hydraulics, lubrication, fire suppression and refuelling systems and products through 12 branches in Australia

Current Status

After many years of poor oversight at the Board and executive management level, a refreshed leadership team is finally turning the company around. The trade distribution business has been unprofitable for many years. Through the recent acquisition of Nubco and a significant amount of hard work by new management, the business is now profitable and its future direction is largely in the hands of the company, rather than being reliant on economic tailwinds.

The fluid systems business has been operating well for the past 2-3 years and has a solid medium term outlook from its mining customers who underinvested in equipment during the downturn and are now playing catch up (resolute AUD commodity prices should result in continued demand for their services during the current economic dislocations). The recent acquisition of Torque Industries diversifies this business into the defence and agriculture sectors. With a base in South Australia, Torque has significant growth opportunities in the defence industry as well as geographic expansion into other states.

Revenue growth has been strong in the first two months of the year and we understand this has continued into March as CYG's exposure is to the industrial economy rather than the consumer economy. Whilst there were concerns around the company's supply of products from China, we are told by management that the availability of most of the products that CYG sources from offshore are now in plentiful supply.

Financial Status

CYG reported net debt of $5.8m at 31 December 2019. The company has a receivables facility with Scottish Pacific with a limit of $25m, which leaves them plenty of headroom should it be required. Furthermore, current assets of $105m are almost double current liabilities of $53m (adjusted for the AASB16 lease liability that was recently bought on balance sheet). With a variable cost base and working capital that can be quickly turned to cash, we believe CYG is well placed to ride out a protracted slowdown

in the economy. The management team have been through the GFC, have saved CYG from a near death experience and are well placed to guide the company through any difficult operating periods that may lie ahead.

Consolidated Operations Group Ltd (COG)

Brief description

COG provides equipment finance and also owns stakes in finance brokers specialising in small- and medium-size enterprise finance. These brokers account for ~17% share of a ~$30-40bn market. Products brokered included asset leasing for business equipment and working capital product solutions such as invoice financing and factoring. COG's strategy is to grow by acquisition as well as organically within the existing broker network. As it grows, it plans to develop more in-house products where it can earn net interest margin, rather than commissions alone. Any products it develops will need to be competitive in terms of both price and service if brokers are to recommend them to clients.

COG's leasing business is TL Rentals. It originates leases from a wide range of brokers, not limited to those where COG has an ownership interest. Key end markets include financing for commercial vehicles, industrial plant & equipment, fixtures & fittings and IT.

Current Status

COG entered into a scheme of arrangement with CML Group Ltd in late 2019. CML's main product is invoice financing, which would complement COG's product lines. The proposed scheme was terminated by CML Group following a rival all-cash proposal by Scottish Pacific Group, a leading invoice finance provider owned by a private equity fund. The Scottish Pacific scheme has total value of 60 cents per share. In the meantime, COG bought a 17.4% stake in CML (for ~57.9cps), which gives it the potential to block the Scottish Pacific proposal.

If COG were to decide to abandon its CML ambitions and the Scottish Pacific scheme were to be approved, COG would receive cash of $22.6m by the end of May 2020. This would provide the company with a significant war-chest for acquisitions, at post-COVID-19 prices.

COG has reported its brokers are beginning to receive enquires from SMEs regarding the stimulus plans announced by the federal government. We expect the brokers, and hence COG, will benefit from these measures, as well as by any future stimulus that may be announced, as economic activity resumes in time. COG have also announced they are scaling back lending through their own lease book to focus on management and collection of the existing leases. COG expects this will save them approximately $2.6m per annum. We think this makes sense while the economic effects of the pandemic unfurl. There remain general market risks that we cannot predict as the full impact of COVID-19 becomes known, but we believe COG is well-placed to weather the storm, and profit from the eventual recovery.

Financial Status

As at 31 December 2019, COG reported unrestricted cash of $43 million. Net assets were reported at $218 million and net tangible assets were $62.5 million. Subsequent to year end, COG spent approximately $22 million acquiring its stake in CML. If the Scottish Pacific Scheme is successful, COG would receive ~$23m as scheme proceeds and dividends.

COG reported approximately $104 million of interest-bearing liabilities as at 31 December 2019, half of which were current liabilities. Although the half year report does not disclose detailed breakdown, the

2019 Annual Report shows the composition of interest-bearing liabilities. We expect the breakdown would be similar as at the half year. We note, the bank facility from Bendigo is small. The debenture funding and leasing funding liabilities have recourse back to the leased assets, but not COG itself.

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