SANDON CAPITAL

Sandon Capital Investments Limited
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Monthly Report

As at 31 May 2022

Net Tangible Assets (NTA)

The net tangible assets per share for Sandon Capital Investments Limited (SNC) as at 31 May 2022 were:

NTA before tax (ex-dividend)	**$0.9043**	**-8.4%**
Deferred tax asset	**$0.0004**	
Deferred tax liability on unrealised income and gains	**($0.0198)**	
NTA after tax (ex-dividend)	**$0.8849**	**-6.5%**

Investment Performance

Gross Performance to 31 May 2022[1]	1 Month	1 year	Since inception (p.a.)
SNC	-7.7%	-7.2%	9.6%
All Ordinaries Accumulation Index	-3.1%	4.7%	8.9%
Outperformance[2]	**-4.5%**	**-11.9%**	**0.7%**

1. The SNC gross returns are after investment management fees and brokerage expenses but before performance fees and corporate expenses. Index returns are before all fees and expenses and before any taxes. Dividends paid during the period are included when calculating SNC's gross investment performance.
2. Figures may not tally due to rounding.

Dividends

SNC has paid 48 cents per share of fully franked dividends since listing in December 2013. The profits reserve is 26.5 cents per share and there are 6.5 cents per share of franking credits.

SNC's FY22 interim dividend of 2.75cps was paid on 1 June 2022. The Board anticipates paying a final dividend for FY22 of 2.75cps, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice.

The table below shows the most recent SNC dividends. A full list of SNC dividends since the IPO in December 2013 can be found here.

Ex-date	Dividend Amount	Franking	Corporate Tax Rate	Type
16 May 2022	2.75 cps	100%	25.0%	Interim
30 November 2021	1.00 cps	100%	25.0%	Special
19 October 2021	2.75 cps	100%	25.0%	Final
17 May 2021	2.50 cps	100%	26.0%	Interim
21 October 2020	2.50 cps	100%	26.0%	Final
5 May 2020	3.50 cps	100%	27.5%	Interim
21 October 2019	3.50 cps	100%	27.5%	Final
16 May 2019	3.50 cps	100%	27.5%	Interim
23 October 2018	3.50 cps	100%	27.5%	Final
8 May 2018	3.50 cps	100%	27.5%	Interim

Sandon Capital Investments Limited

ASX Code	**SNC**
Listed	**23 Dec 2013**
Gross assets*	**$154.1m**
Market capitalisation	**$101.8m**
NTA before tax	**$0.9043**
Share price	**$0.7500**
Shares on issue	**135,764,627**
Options on issue	**nil**
Fully franked dividends	**$0.055**
Dividend yield (annualised)	**7.3%**
Profits reserve (per share)	**26.5cps**
Franking (per share)	**6.5cps**
Loan-to-assets (incl. MVTHA)	**20%**

*includes the face value of Mercantile 4.8% 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 11.4% 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 7.7% for the month, on a gross basis, after investment management fees and brokerage but before performance fees and corporate expenses, compared to a decrease of 3.1% for the All Ordinaries Accumulation Index.

The largest detractors for the month were A2B Australia Ltd (A2B), Coventry Group Ltd (CYG), City Chic Collective Ltd (CCX), COG Financial Services Ltd (COG). Any gains were so small as to not warrant a mention.

Whilst never pleasant to report results like these, there is an aspect to this far more frustrating: there were no negative updates from our companies. Sellers are likely doing so in anticipation of lower prices. We suspect they may come to regret their sales in the fullness of time. The price declines have been widespread across small and mid-cap companies.

We have spent the past two months speaking with the management teams of our major holdings. We've asked similar questions to each of them: what are your experiences with input costs and labour costs (and availability)?; and, have you been able to pass on increased costs to your customers (and do you expect to continue to do so)?

Unsurprisingly, all have faced increased costs for raw materials and labour. Labour shortages have also been mentioned. What most have also talked about is how they are seeking to mitigate these cost increases. For some, they are simply passing on the cost increases to their customers. One CFO noted that most customers have been accepting of the price increases as there was a broad understanding of the situation. Others are seeking to mitigate cost pressures by ensuring that quotes remain valid for ever-shorter times. This helps reduce the risk of a project being priced today, only to find that raw materials are more expensive when the quote is accepted. Increasing skilled and unskilled migration will be the only way to ameliorate the skills shortage and reduce pressure to significantly raise wages.

While investor sentiment may not yet have reached its nadir, we believe there is evidence of light at the end of the tunnel. On supply chains, there is increasing evidence that these issues are slowly resolving. For example, in recent days, major European car and truck makers have said micro-chip shortages are now over and they are now returning to producing at full capacity. We are also seeing evidence of shipping backlogs at major ports slowly clearing. Reports are also emerging that mineral sands producers are announcing 3Q22 contract prices increases for zircon of at least 7%. Energy prices will remain elevated while the Russia-Ukraine conflict persists.

We will shortly release a more detailed letter to investors in which we comment more widely on the portfolio.

In conclusion, rather than reinventing the wheel, we repeat some of our concluding comment from last month: *"Capital markets globally continue to exhibit heightened volatility as central bankers start wringing the excesses of the past decade from the system. High growth equities trading on nose bleed valuations have borne the brunt of the volatility. …. Many of the smaller cap names in our portfolio have been caught up in this volatility and have been unduly punished, often on thin volumes. The business fundamentals underpinning many of our investments continue to remain solid and valuations remain undemanding. We believe these ingredients position the portfolio to perform well over the medium to long term. In the short term, we continue to expect significant volatility in markets, however this also provides opportunity. We are taking advantage of this by steadily deploying capital into attractive investments."*

Investment Portfolio

	May 2022
Listed Australian Equities	83%
Listed International Equities	10%
Unlisted investments	7%
Cash or Cash Equivalents	0%

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.

Further information:

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