

MONTHLY REPORT

Sandon Capital Investments Limited (ASX:SNC)

NTA Before Tax	NTA After Tax
\$0.7838	\$0.7832

SEPTEMBER 2023

INVESTMENT PERFORMANCE

Gross Performance to 30 Sep 2023 ¹	1 month	1 year	Since inception (p.a.)
SNC	-2.0%	9.3%	7.6%
All Ordinaries Accum. Index	-2.8%	13.1%	8.0%
Outperformance²	0.8%	-3.8%	-0.4%

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 SIN's gross investment performance.

2. Figures may not tally due to rounding.

SANDON CAPITAL INVESTMENTS LIMITED

ASX Code	SNC
Gross assets*	\$142.5m
Market capitalisation	\$94.6m
Share price	\$0.68
Fully franked dividends	\$0.055
Dividend yield (annualised)	8.1%
Profits reserve (per share)	27.6cps
Franking (per share)	8.1cps
Loan-to-assets (incl. SNCHA)	17%

*Includes the face value of 4.8% unsecured notes (ASX: SNCHA)

PORTFOLIO COMMENTARY

The Portfolio was down 2.0% for the month, on a gross basis, after investment management fees and brokerage but before performance fees and corporate expenses, compared to a decline of 2.8% for the All Ordinaries Accumulation Index.

The largest contributors to performance were Global Data Centre Group (GDC) (+0.6%) and Midway Ltd (MWY) (+0.5%). The largest detractor was Fleetwood Ltd (FWD) (-1.4%).

There were few company announcements during September following the just completed August reporting season. Capital markets were very volatile during September as longer-term interest rates rose and investors began to accept that it will likely be some time before central banks consider lowering short-term interest rates. We expect volatility to be prevalent in capital markets for some time as asset prices adjust to a world in which interest rates return to historical levels from the artificially depressed levels seen over the past 15 years following the global financial crisis.

GDC announced that Etix Everywhere (Etix) completed the acquisition of five French data centres, increasing the maximum potential capacity of the Etix portfolio to 17.3MW. This acquisition was funded by a combination of new equity issued to Eurazeo, a current shareholder in Etix, and debt. We consider transactions like this as consistent with the Etix strategy to grow, which increases its relevance to potential acquirers, which in turn will assist GDC's mandate to sell its assets over time. Media reports during September suggested that hyperscale data centre developer and operator AirTrunk might be considering a sale or IPO. GDC owns an ~1% stake in AirTrunk.

Based on the earnings reported for AirTrunk and the current trading multiples of listed hyperscale data centres, we believe GDC's holding in AirTrunk could be worth \$100-130m, well above the current carrying value of \$45m. This gives us confidence that the monetisation of GDC assets will realise closer to \$3 per unit, well above the current unit price (\$1.89 per unit) and the fair value NAV reported by GDC (\$2.47 per unit).

During September, Spectra Systems plc (SPSY) reported a very strong 1H CY23 result with revenues increasing 25%, driven by sales of covert materials and a pre-production development contract. The company's robust operating leverage was on display with 25% revenue growth translating to 55% normalised EBITDA growth and 74% adjusted earnings per share growth. In 2023, SPSY is set to deliver its seventh year of earnings per share growth, compounding at an annual rate >30% over that time period. SPSY's business requires very little capital, which has resulted in very strong free cash flow generation. These cash flows have been used to buy back stock, pay dividends and buttress the company's balance sheet, with almost 20% of the current market capitalisation underpinned by net cash.

Yellow Brick Road Holdings Ltd (YBR) announced that it has applied to delist from the Australian Securities Exchange (ASX); the key reason being that limited trading and liquidity has resulted in the trading price of the stock not reflecting the underlying value of the company. A delisting should also result in cost savings and allow management to focus on running the company without the day-to-day distraction of being an ASX listed entity. We are supportive of the company's move to delist and believe that it is best placed to pursue its strategic objectives as an unlisted entity.

While aware of the world in which we invest, we do not try to guess, pre-empt or anticipate what might happen in the economy or the equity market in the short term. We remain confident in the medium to long-term operating and financial outlook for our core holdings. We are scouring the market for new opportunities, as times of fear and turmoil typically offer the most attractive prices. We remind ourselves daily of the investing adage "buy low, sell high." Part of this reminder is the opportunity to buy low appears at the most uncomfortable moments (that is, when prices are falling!).

DIVIDENDS

SNC has declared 56.25 cents per share of fully franked dividends since listing in December 2013. The profits reserve is 27.6 cents per share and there are 8.1 cents per share of franking credits. These franking credits support the payment of 24.3 cps of fully franked dividends.

SNC's FY23 final dividend of 2.75cps will be paid on 8 November 2023. The Board anticipates paying an interim dividend for FY24 of 2.75cps, provided the Company has sufficient profit reserves, franking credits and it is within prudent business practice.

A full list of SNC dividends since the IPO in December 2013 can be found [here](#).

TOP 5 POSITIONS

Fleetwood	11%
A2B	11%
COG Financial Services	11%
Spectra Systems Inc.	9%
BCI Minerals	6%

INSTRUMENT EXPOSURE

Listed Australian Equities	82%
Listed International Equities	12%
Unlisted Investments	6%
Cash or Cash Equivalents	0%

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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 9.5% 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.

SANDON CAPITAL

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