SANDON CAPITAL

MONTHLY REPORT

Sandon Capital Investments Limited (ASX:SNC)

OCTOBER 2023

NTA Before Tax (ex-dividend)	NTA After Tax (ex-dividend)
$0.7394	$0.7395

INVESTMENT PERFORMANCE

Gross Performance to 31 Oct 2023[1]	1 month	1 year	Since inception (p.a.)
SNC	-3.2%	3.9%	7.2%
All Ordinaries Accum. Index	-3.9%	2.9%	7.5%
Outperformance[2]	**0.7%**	**1.0%**	**-0.3%**

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*	$137.5m
Market capitalisation	$88.4m
Share price	$0.635
Fully franked dividends	$0.055
Dividend yield (annualised)	8.7%
Profits reserve (per share)	24.8cps
Franking (per share)	7.2cps
Loan-to-assets (incl. SNCHA)	16%

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

PORTFOLIO COMMENTARY

The Portfolio was down 3.2% for the month, on a gross basis, after investment management fees and brokerage but before performance fees and corporate expenses. The volatility seen in capital markets in recent months continued into October and the Fund's portfolio was not immune. As a point of reference, the All Ordinaries Accumulation Index was down 3.9% and the Small Ordinaries Accumulation Index, which is more representative of our portfolio, was down 5.5% for the month.

The largest detractors were Fleetwood Ltd (FWD) (-1.4%), Magellan Financial Group Ltd (MFG) (-1.2%) A2B Australia Ltd (A2B) (-0.7%) and COG Financial Services Ltd (COG) (-0.3%). These were only partially offset by Coventry Group Ltd (CYG) (+1.0%) and Spectra Systems Corporation (SPSY LN) (+0.8%).

FWD held its AGM in late October with the trading and outlook commentary pointing to continued improvement in the business. The turnaround in Building Solutions continues to gain traction with the order book growing ~12% since 30 June 2023, adding to the ~50% growth from 31 December 2022. With the business now focused on standardised, repeatable work and the benefits from the national procurement strategy starting to flow, we are expecting a significantly improved result from the Building Solutions segment in FY24. Community Solutions is benefiting from a strong demand environment and rising room rates which should translate to further improvement in segment earnings in FY24, after the 23% growth seen in FY23. Demand for products in RV Solutions is expected to moderate, however price increases implemented to recover last year's rising costs are expected to lead to

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improved margins and earnings for this segment in FY24.

MFG continues to demonstrate the need for a change in strategy. Its shares declined ~30% for the month after reporting a larger than expected decline in funds under management (FUM) in September 2023. Later, the company announced that David George, MD & CEO, would be stepping down from his role immediately. Andrew Formica has become Executive Chairman while the company undertakes a search for a new CEO.

This change in management is an opportune time for the Board to undertake a strategic review, particularly given the improved funds management skill-set of the "new" Board. The outcomes of such a review should then inform the Board of exactly the type of CEO that is needed at MFG. A first strike on the Remuneration Report at the upcoming AGM would also send a clear message that shareholders will not tolerate misaligned and excessive CEO remuneration in future.

The continued outflows in FUM are disappointing. Despite the continued decline, the value of the company's non-operating assets – cash, fund investments and associate investments – has remained stable. We estimate these assets currently comprise ~\$5.60 per share of value, or >80% of the current share price. This implies a value for the funds management business of approximately \$250 million. This situation is clearly not tenable. The market is sending a message of no-confidence to the Board. We maintain that a strategy that prioritises the existing business and its clients combined with aggressive capital management is the best way to balance the interests of MFG clients and shareholders. We consider such an approach would regain the trust of MFG's clients and shareholders, both of whom are crucial to restoring value. For now, our campaign will continue to push the company to return the bulk of these non-operating assets to shareholders, rather than seeing them directed towards acquisitions, which are likely to fail to deliver on expectations.

CYG reported that 1Q24 earnings continued the growth trajectory seen over the past 6 years, with revenue up ~6% and EBITDA up ~11%, each on the prior corresponding period (pcp). Encouragingly, the company is starting to display positive operating leverage, with earnings now growing faster than revenues. This has been a long time coming and is a function of two things: (i) the improved service proposition allowing the company to raise prices (sell side), and (ii) the increased size of the company allowing it to extract better prices and working capital terms from its suppliers (buy side). The earnings growth looks set to accelerate, with EBITDA in the month of September up ~27% on the pcp and the company pointing to an improving run-rate from the buy side and sell side initiatives in the December quarter. CYG's EBITDA margins have remained relatively stagnant at ~4.6 - 4.8% over the past 3 years. We expect this margin to accelerate towards the company's 10% target over the next 3 years, assuming end markets remain accommodative.

COG provided a strong 1Q trading update with unaudited 1Q FY24 NPATA increasing 19% on the pcp. The encouraging results were driven by the Novated Leasing segment which is experiencing continued organic growth and also benefiting from the recent acquisition of Paywise. The Funds Management & Lending segment has seen temporary margin squeeze on historical originations, however margins are expected to recover over time. Towards the end of the month, the press reported that COG had made a non-binding indicative offer (NBIO) to acquire Diverger Ltd (DVR), a provider of services to financial advisers and accountants, including back-office support to AFSL licensees and dealer groups. DVR had previously entered into a Scheme Implementation Deed with Count Ltd (CUP) and it remains to be seen if COG's NBIO will be sufficient to entice DVR into the arms of an alternative suitor.

BCI Minerals Ltd (BCI) announced that credit approvals for the \$981 million of project finance required for the Mardie salt project have been received from all key debt providers. All facilities remain conditional on formal documentation, securing required tenure and approvals for the optimised feasibility study area, equity funding, offtake arrangements, and satisfying other customary conditions associated with the loans. We expect an update from BCI on the required equity funding in before year end. As reported in the company's September quarter production report, the construction of the Mardi project and its associated infrastructure continues to progress, with first salt shipments in 2026 coinciding with an expected shortage in the global salt market.

The month of November will see further trading updates as the Annual General Meeting (AGM) season enters full swing. Where appropriate, we will provide further commentary on relevant AGMs in the next monthly update.

DIVIDENDS

SNC has declared 56.25 cents per share of fully franked dividends since listing in December 2013. The profits reserve is 24.8 cents per share and there are 7.2 cents per share of franking credits. These franking credits support the payment of 21.6 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

COG Financial Services	11%
A2B	11%
Fleetwood	10%
Spectra Systems	10%
Coventry	6%

INSTRUMENT EXPOSURE

Listed Australian Equities	81%
Listed International Equities	13%
Unlisted Investments	6%
Cash or Cash Equivalents	0%

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 9.2% 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.

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