SANDON CAPITAL

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MONTHLY REPORT

Sandon Capital Investments Limited (ASX:SNC)

DECEMBER 2023

NTA Before Tax	NTA After Tax
$0.8537	$0.8403

INVESTMENT PERFORMANCE

Gross Performance to 31 Dec 2023[1]	1 month	1 year	Since inception (p.a.)
SNC	7.4%	20.5%	8.5%
All Ords Accumulation Index	7.4%	13.0%	8.7%
Outperformance[2]	**0.0%**	**7.5%**	**-0.1%**

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*	$149.5m
Market capitalisation	$107.1m
Share price	$0.760
Fully franked dividends	$0.055
Dividend yield (annualised)	7.2%
Profits reserve (per share)	31.8cps
Franking (per share)	7.2cps
Loan-to-assets (incl. SNCHA)	14%

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

PORTFOLIO COMMENTARY

The Portfolio was up 7.4% for the month, on a gross basis, after investment management fees and brokerage but before performance fees and corporate expenses, compared to an increase of 7.4% for the All Ordinaries Accumulation Index.

Merger and Acquisition (M&A) activity at the smaller end of the market roared back to life during December. Our portfolio benefited from this as well as other stock specific positive announcements. The largest contributors were A2B Australia Ltd (A2B) (+2.9%), Spectra Systems plc (SPSY) (+2.5%), Fleetwood Ltd (FWD) (+1.2%), Coventry Group Ltd (CYG) (+1.2%) and Magellan Financial Group Ltd (MFG) (+0.8%). There were no detractors of note for the month.

A2B had an extraordinarily busy month in December announcing the settlement of its remaining properties; Downing Street, Oakleigh for $8 million and O'Riordan Street, Alexandria for $78 million. Following the sale of these properties, the company announced a larger than expected fully franked dividend of 60 cents per share to be paid in late January. The positive surprises didn't end there. On 22 December 2023, A2B announced it had entered into a scheme of arrangement with Singapore's ComfortDelGro. If approved, shareholders will receive a total of $2.05, comprising $1.45 per share in scheme consideration and the aforementioned fully franked special dividend of $0.60 per share.

When we first invested in A2B, its market capitalisation was approximately $110 million and the company was committed to a strategy that we believed was eroding the value of the business. Our campaign to change the Board, including the appointment of Mark Bayliss as Executive Chairman, has led to a significant change in fortunes for A2B and its shareholders. Mark and his team have executed one of the most successful corporate resurrections we have witnessed – non-core property assets have been sold, the core taxi despatch and payments businesses have been successfully turned around, and these efforts have been capped off with the announcements of the large special dividend and the scheme implementation agreement with ComfortDelGro. The company today has a market capitalisation of more than $260 million (prior to the payment of the special dividend). In less than three years, more than $150 million of shareholder value has been created.

SPSY announced the acquisition of Cartor Holdings Limited (Cartor) for a maximum consideration of £10.5 million. Cartor is a global market leader in security printing and operates manufacturing sites in the UK and France producing conventional and hybrid postage stamps, tax stamps, vouchers, coupons, certificates, and security documents. Cartor uses state-of-the-art technology to make it difficult for counterfeiters to operate in industries with high monetary or intellectual value products and services.

In addition to its highly profitable core security printing business, Cartor has worked with SPSY for the past two years to develop Fusion™ substrates for qualification by central banks and leading polymer banknote printers. We believe this product will be highly desired by central banks in order to provide competition to the existing banknote supply duopoly of CCL Industries in Canada and De La Rue International in the U.K.

The acquisition of Cartor is highly complementary to SPSY's existing business and is also very accretive to both earnings and value. We look forward to a number of further updates from SPSY over the next few months including the execution of a sensor manufacturing contract, optical materials sales in Asia, K-cup orders and the long-awaited qualification of the Fusion product.

CYG provided a 1HFY24 trading update, with the encouraging trends disclosed at the AGM in October accelerating into the end of the calendar year. 1HFY24 sales are expected to be $185.5 million, up ~5.5% on the prior corresponding period (pcp). More importantly, 1HFY24 EBITDA is expected to be $9.8 million, up ~18.0% on the pcp. The initiatives to grow EBITDA margin to 10% in the medium term that were implemented early in the financial year gained momentum in the December quarter with 2QFY24 EBITDA forecast to be up ~28.5% on the pcp. Demand continues to remain solid in the company's core end markets (mining and resources, infrastructure, commercial construction and industrial) and the Enterprise Resource Planning (ERP) upgrade continues to track to schedule and budget. CYG operates in large, fragmented markets and has very modest market shares. We expect the strong top line growth that has been demonstrated over the past 5-6 years to continue into the medium term, with operating leverage and margin expansion initiatives translating to significantly faster earnings growth.

MFG announced that strong underlying markets in November had resulted in a 2.6% increase in funds under management (FUM). This was only the second increase in FUM in the past 20 months and the first since January 2023. Also during the month, MFG announced a resolution to the liability related to options over closed class units in Magellan Global Fund (ASX: MGF). MFG will purchase up to 750 million MGF options on market at a price of 10 cents per option. This coincided with the responsible entity (RE) of MGF deciding to proceed with a conversion of the closed class units to open class units, thus permanently addressing the discount to net asset value (NAV) that MGF has persistently traded at. Whilst the resolution of MGF and its options will cost more than we expected, it will also bring an end to a saga that has tarnished the MFG brand for a number of years now. MFG Executive Chairman, Andrew Formica, has moved expeditiously to address a number of legacy issues. With these now largely in the rear-view mirror, we look forward to him turning his attention towards capital management in the first half of 2024.

LNK announced that it had entered into a scheme implementation deed with Japanese company, Mitsubishi UFJ Financial Group (Mitsubishi), under which Mitsubishi will acquire LNK for total consideration of $2.26 per share. The scheme is unanimously recommended by LNK's board. There has been significant corporate interest in LNK over the past few years, however all that interest has amounted to nought. We expect the likelihood of the Mitsubishi scheme proceeding to be high, however also believe there is some chance that another bidder enters the fray for the company.

Having farewelled 2023, our minds turn to 2024 and beyond. As our regular readers know, we eschew macro predictions. That said, we gladly make observations. 2024 is likely to be an interesting year. Investors will likely continue to focus on interest rates and inflation.

Many expect that both might be heading down. We don't know, but we think that a little more stability, and more normalised levels, in respect of interest rates are generally good things. What we do know is that financial markets have a well-established propensity to over-shoot, both up and down.

Time Magazine recently described 2024 as the "Ultimate Election Year". Nearly half the world's population will vote in elections this year. Notable potentially influential events include the presidential elections in the US, Russia, Taiwan and Indonesia, as well as parliamentary elections in the UK and the EU. We don't know how any of these elections will turn out, but we expect they might contribute to additional uncertainty and volatility.

No matter what the outcome of these events, our investment approach, now in its 15th year of application, will remain unchanged. We will continue to focus on companies within the portfolio to improve and extract value. Aside from this, the search for new investment opportunities remains an ongoing and never-ending task. Given the volatility seen in capital markets over the past few years and the severe underperformance of small and micro-cap equities, the opportunity set is fertile. We look forward to reporting on the portfolio as 2024 unfolds.

DIVIDENDS

SNC has paid 56.25 cents per share of fully franked dividends since listing in December 2013. The profits reserve is 31.8 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 was 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

Spectra Systems	12%
A2B	11%
COG Financial Services	11%
Fleetwood	10%
Coventry	6%

INSTRUMENT EXPOSURE

Listed Australian Equities	76%
Listed International Equities	14%
Unlisted Investments	8%
Cash or Cash Equivalents	2%

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 10.1% 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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