AUSTRALIAN RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Sandon Capital Investments Limited (ASX: SNC)

Review

13 December 2024

INDEPENDENT INVESTMENT RESEARCH

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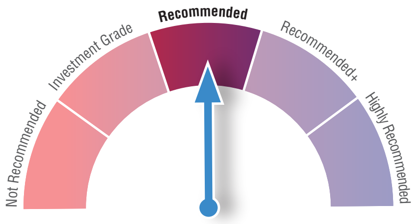
Note: This report is based on information provided by the Manager as at 31 August 2024.

Rating



Key Investment Information (as at 31 October 2024)

ASX Code:	SNC
Share Price ($)	$0.77
NTA* per Share ($)	$0.939
Market Cap ($m)	$109.8
Listing Date	December 2013
Premium/Discount to NTA*	-8.0%
Dividend Yield (Net)	7.14%
Structure	Listed Investment Company (LIC)
Investment Manager	Sandon Capital Pty Ltd
Fees (ex. GST):	
Management fee (p.a.)	1.25%
Performance Fee	20% of net return in excess 30 Day BBSW, subject to High Water Mark

*After tax on realised gains but before tax on unrealised gains.

Key Exposure

Underlying Exposure	Concentrated portfolio of domestic and global small cap stocks and unlisted securities.
FX Exposure	Given the ability to invest in international securities, the Company will have direct currency exposure, however it will be limited. The portfolio will typically be unhedged.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

PRODUCT SUMMARY

Sandon Capital Investments Limited (ASX: SNC) ("SNC" or the "Company") is a listed investment company (LIC) that provides exposure to a highly concentrated portfolio of primarily Australia equities and an activist investment strategy. The Company has a track record of over 10 years, with the Company listing in December 2013. The portfolio is managed by Sandon Capital Pty Ltd ("Sandon Capital" or the "Manager"), a deep-value Australian equities manager that utilises activism as a tool to preserve and unlock the value of its investments. The Sydney-based Manager was founded in 2008 and also runs the Sandon Capital Activist Fund (SCAF), a wholesale managed investment scheme, established in September 2009. SNC employs the same investment strategy (bar a number of portfolio variations) as the SCAF which has a track record of 15 years. SNC is a differentiated offering for Australian retail investors, despite this investment style being well known and of growing prominence in many Western investment markets. The high conviction and highly concentrated portfolio predominantly comprises Australian equities (up to 15% invested in international equities), cash and at times a limited number of short positions. The returns profile is idiosyncratic, at times event driven and exhibits a low correlation to the broader Australian equities market for an equities mandate. Over SNC's 10-year track-record, the Company's gross NTA performance has kept pace with the Australian equities market represented by the S&P/ASX All Ords Accumulation Index and outperformed the S&P/ASX Small Ords Accumulation index, although relative performance for shorter periods can be lumpy and volatile. On an NTA basis after all fees, expenses and tax on realised gains however, the Company has lagged the broad and small cap indices. Based on both its deep value and activist investment style, investors should expect prolonged periods of out-and-underperformance relative to the broader Australian equities market.

INVESTOR SUITABILITY

The portfolio offers a highly differentiated risk/return profile to the broader Australian equities market and will almost invariably exhibit low to moderate correlation to the market by the very nature of the investment strategy. Returns are largely stock specific and or event driven and therefore idiosyncratic, being driven largely by catalysts that happen to one of the portfolio holdings as opposed to necessarily rising and falling with the market. The portfolio is highly concentrated and its core positions are at varying points of time either very active or completely inactive, depending on where the Manager is in the process of engagement with the company management and/or shareholder base. We note some core positions are held or evolved to be more for valuation reasons rather than activism potential. Portfolio holdings are mainly small cap stocks and at times include unlisted securities. Investors should therefore consider SNC a long term investment. The returns profile of SNC may represent a useful source of diversification within a broader Australian equities portfolio. The Manager places a strong emphasis on risk mitigation and capital preservation. The Company is increasing the dividend frequency from semi-annual to quarterly starting from the March quarter 2025. The Company seeks to frank dividends to the maximum extent possible with all dividends being fully franked to date and has historically offered an above-market dividend yield.

RECOMMENDATION

IIR has maintained a **Recommended** rating for Sandon Capital Investments Limited (ASX: SNC). SNC is a genuinely differentiated product and one that provides genuine diversification benefits. Successful activist investing require patience and a differentiated skill-set in IIR's view. We believe the Manager has proven itself capable in this regard, with Managing Director and Chief Investment Officer (CIO) Gabriel Radzyminski possessing the necessary acumen and determination required to extract identified value in underperforming investments. The risk and return characteristics show that the portfolio is being managed true to name and alignment of interest is strong. However we believe the performance fee structure could be improved, with investors benefiting from a lesser degree of fee and cost 'leakage'. In addition to its small size and limited liquidity, the strategy requires long-term, patient investors with investments often taking many years before the value is realised (akin to a private equity style of investment). We attribute a combination of these factors to have contributed to the discount at which the Company trades. It will be up to the Manager and Board to implement initiatives to increase demand for the strategy to narrow the discount. If this can be achieved, the discount provides an opportunity for investors to potentially enhance their returns.

SWOT

Strengths

- IIR views being a successful activist investor as requiring particular skills and abilities. Not only does it require acumen to identify an activist prospect and to gain the sense of a disquieted shareholder base, it also requires patience and determination to pursue the activist strategy when company management is not agreeable to the strategy. We believe Managing Director and Chief Investment Officer (CIO), Gabriel Radzyminski demonstrates these skills.
- There is a strong alignment of interest with shareholders through equity ownership in the Manager and a co-investment in SNC.
- SNC shares offer an attractive grossed-up dividend yield. The Company has sufficient profit reserve and franking balance to maintain the current annual fully franked dividend of 5.5 cents per share for over 4 years. As such, we view the risk to a dividend cut in the near term to be low.
- While the market dynamics have been challenging for small cap and value style investing, we note that SNC's gross NTA performance has kept pace with the broader Australian equities market over its 10-year track-record to end of September 2024.
- We view the LIC structure as beneficial for a strategy such as this, given the low levels of liquidity in the portfolio. Investors are provided liquidity through the secondary market allowing the Manager to execute on the long-term strategy of SNC.
- The Manager recently announced it will be increasing the frequency of dividends from semi-annual to quarterly with the first quarterly dividend to be paid for the March quarter 2025. The Company also flagged a slight increase in the annual dividend to 5.6 cents per share (1.4 cents per quarter). The Company currently has over 4 years of fully franked dividend coverage at the new annual rate. The announcement provides some certainty to the market regarding its intended dividend 2025 payments.

Weaknesses

- SNC's fees are relatively high, which is not uncommon for lower FUM investment strategies. We accept the Manager's rationale for a cash-based benchmark applicable to the performance fee but believe a 'cash plus' benchmark would be more appropriate as it is more commensurate with the risk profile of the investment strategy.
- There are 290,578 unsecured notes on issue with a face value of $27.6 million. These notes are non-converting debt securities that will mature on 10 July 2026. Given the size of the Company, this will be a sizable repayment to make unless the Company can refinance the notes. We note the Company has previously successfully refinanced the notes.
- As is the case with many boutique managers, there is a high degree of key man risk with its Managing Director and CIO, Gabriel Radzyminski.

Opportunities

- SNC is a unique and differentiated product offering, with Sandon Capital being one of few long term dedicated activist manager in Australia. Due to the idiosyncratic and event-driven nature of returns, the investment strategy has exhibited a low correlation to the broader Australian equities market, as well as lower long term return volatility compared to peer small LICs, presenting potential diversification benefits for investors.
- Premium / discount to NTA is both an opportunity and a threat. However, over recent periods SNC has witnessed a general narrowing to what had been a persistent discount to NTA. The Manager's commitment to be proactive on the communications front can only exert a positive influence in this regard.

Threats

- While the Australian legal structure is supportive of an activist strategy, the counterbalance is that often there is an antipathy amongst Australian investors to sanction management. It can be argued that Australian investors often exhibit an unhealthy tolerance of under-performing management teams.

- SNC utilises a modest level of gearing (circa 115% at present subject to a maximum of 150% gross exposure limit). The use of leverage may lead to magnified losses and the cost of borrowing may dilute shareholder returns during periods of poor performances.
- One of the benefits of the LIC structure is that LICs can retain capital gains and income to be paid out at a time in future providing the potential to smooth the income stream for investors. However, paying out dividends above the rate of return can have a negative impact on the capital growth potential of the Company and can limit organic FUM growth, which could possibly benefit shareholders through lower costs per unit and a lower differential between gross and net returns.
- Investors should be aware that the portfolio's highly concentrated nature may result in heightened volatility. The core part of the portfolio consists of circa 10 securities and represented ~70% of the portfolio as at 31 August 2024. Holdings in unlisted securities are relatively high currently and the liquidity of the SNC portfolio is limited.
- SNC has traded at a discount to NTA for most of its history. Discounts present a threat and an opportunity for investors. One of the drawbacks of discounts for prolonged periods is it restricts the ability to grow the Company, with increased size providing benefits such as a broader shareholder base, increased liquidity and a reduction in costs per unit for shareholders.

PRODUCT OVERVIEW

Sandon Capital Investments Limited (ASX: SNC) ("SNC" or the "Company") is a listed investment company (LIC) with a track of over 10 years, listing on the ASX in December 2013. The portfolio is managed by Sandon Capital Pty Ltd ("Sandon Capital" or the "Manager"), which was incorporated in April 2008. The Founder of Sandon Capital is its Managing Director and Chief Investment Officer (CIO), Gabriel Radzyminski. Sandon Capital is a deep-value fundamental manager that uses activism as a tool to preserve or enhance the value of its investments. The Manager views activism as a critical, and often missing, tool of value investing, and approaches activism as the process of seeking and investing in under-valued companies using traditional 'value' investing criteria and, as an active shareholder, seeking to enact change to create catalysts which unlock the value inherent in the company, driving up the share price and/or increasing dividends or returning capital.

Sandon Capital was the only dedicated activist fund manager in Australia when it incorporated in 2008 and has consistently applied this investment approach in managing investments. Collectively, the Sandon Capital group manages two portfolios with similar strategies: (1) Sandon Capital Investments Limited (ASX: SNC); and Sandon Capital Activist Fund (SCAF), a wholesale managed investment scheme. Both vehicles are based on the same investment strategy, although there are variations in portfolio allocations.

Since SNC's inception, the characteristics of the portfolio performance have reflected the activist, event driven nature of the strategy. Returns have been idiosyncratic, lumpy, and exhibited a low correlation for an equities mandate to the broader Australian equities market. There have been periods of out-and-underperformance. As such, investors should view SNC as a long-term investment with the Manager holding positions for many years to realise the investment thesis for individual stocks.

The Company performed strongly over 12 month period to 31 August 2024, with both the NTA and share price enjoying returns in excess of 20%, outperforming both the S&P/ASX All Ords and the S&P/ASX Small Ords Indices. Over the longer term though, net returns have lagged the broad and small cap market indices. We note return volatility of SNC over time was lower compared to peer LICs in small cap investing. This attribute together with its low correlation to broad equities market, are consistent with its long term activist approach, and provide a differentiated opportunity for long term investors.

The portfolio is highly concentrated and constituents of the portfolio are typically small cap (i.e. outside the ASX 100). The portfolio will predominantly be exposed to Australian equities, however the Company can invest up to 15% of the portfolio in international equities. The Portfolio also has the ability to invest in unlisted securities. Gearing is allowed with a maximum gross exposure limit of 150%. SNC had 15% leverage as at 31 August 2024 through unsecured notes.

In October 2019, SNC completed the acquisition and integration of Mercantile Investment Company Ltd (ASX Code: MVT). The integration of the MVT portfolio has increased the number of portfolio holdings in subsequent years. This integration is now complete and the SNC portfolio characteristics will be more consistent with its long term ranges going forward.

SNC has historically paid a semi-annual dividend. All dividends to date have been fully franked with the Company paying a relatively high dividend throughout its history with the Company having an above-market dividend yield. On 12 December 2024, the Company announced it will be increasing the dividend frequency from semi-annual to quarterly with the first quarterly dividend to be paid for the March 2025 quarter. The Company intends to pay a quarterly dividend of 1.4 cents per share in 2025, equating to an annual dividend of 5.6 cents per share. This is a slight increase on the previous annual dividend of 5.5 cents per share. The Company has over 4 years of fully franked dividends at the new annual dividend rate.

The Company pays a management fee of 1.25%p.a. (plus GST) and a performance fee of 20% above excess returns of the cash benchmark (30-day BBSW), subject to a High Water Mark. We believe a 'cash plus' benchmark would be more appropriate as it is more commensurate with the risk profile of the investment strategy with the current performance fee hurdle leading to significant fee leakage during periods of strong portfolio performance.

BOARD & INVESTMENT MANAGER

Board

The Board of Directors is majority independent and represents a good mix of complementary skill sets and experiences. The Board comprises three Directors, which is considered small but is commensurate with the size of the Company. Mr. Radzyminski, founder and CIO of the Manager, is the Chair and has been since inception of the Company. Mr. Radzyminski is the only Non-Independent Director. The two Independent Directors are noted below.

Peter Velez -**Independent Non-Executive Director:** was a corporate lawyer until 2023 specialising in equity capital markets, mergers and acquisitions and funds management. Peter has also advised extensively on activist corporate activity, ASX compliance and corporate governance. Peter has been a practising lawyer since 1989 having worked at then national firm Freehill Hollingdale and Page and Sydney boutique corporate firm Watson Mangioni from 1995 to 2016. He played a key role in the development of externally-managed listed investment companies having been involved in the IPO of over 25 LICs since 1999. Peter brings to the board an understanding of the legal framework within which the company operates, an appreciation of the challenges faced by an activist style of investing and an appreciation of the key part that sound corporate governance plays in the success of a company. Peter has been a Director of the Company since May 2017, and is a member of the Audit and Risk Committee.

Jacqueline Sullivan - **Independent Non-Executive Director:** is an experienced fund management executive, having gained experience in senior executive roles at AMP Capital, both Australia and overseas including 7 years as Managing Director, Global Distribution for AMP Capital. Since then Jacqueline has engaged in advisory work. Jacqueline has been a Director of the Company since December 2021, and is Chair of the Audit and Risk Committee.

Jacqueline is a director of WAM Microcap Ltd (ASX:WMI).

Investment Manager

The Manager, Sandon Capital Pty Ltd was incorporated in Australia in April 2008. The founder is its Managing Director and Chief Investment Officer (CIO), Gabriel Radzyminski. Mr. Radzyminski has over 25 years' investment experience across a range of asset classes. Prior to establishing Sandon Capital, Mr. Radzyminski spent seven years as portfolio manager and held overall management responsibilities for Specialised Private Capital Ltd, a boutique funds management business which at the time had $150 million of funds under management.

Collectively, the Sandon Capital group manages two portfolios with similar strategies: (1) Sandon Capital Investments Limited (ASX: SNC); and (2) Sandon Capital Activist Fund (SCAF), a wholesale managed investment scheme established in September 2009. Both vehicles are based on the same investment strategy, although there are variations in portfolio allocations. Notably, SNC will typically have a materially lower degree of cash than the wholesale vehicle given SNC does not manage for redemptions. Otherwise, all investments are generally split on a pro-rata basis between the two investment vehicles.

Interests associated with Mr. Radzyminski ultimately own 68% of the issued capital of Sandon Capital. Campbell Morgan, Portfolio Manager, through an entity of which he is a beneficiary, currently owns 10% of the issued capital, the remaining 22% of Sandon Capital is held by a few smaller investors.

As at 30 September 2024, the Manager's AUM was approximately AUD$215 million.

Investment Team

The two person investment team consists of Gabriel Radzyminski and Portfolio Manager, Campbell Morgan. Mr. Morgan has been with the Manager since 2014. Both members are generalists and work closely together on all prospective investment ideas as well as the management of existing positions. Both members have sectors/areas of greater expertise, which tend to dovetail well. While the investment management process is very much a collaborative one, ultimately it is Mr. Radzyminski that is responsible for all investment decisions.

There is a strong alignment with shareholders through the investment team's equity ownership as well as co-investment in SNC. The members of the investment team are detailed below.

Investment Team

Name	Position	Years of Experience	Years at Manager
Gabriel Radzyminski	Managing Director and Chief Investment Officer	25+	16
Campbell Morgan	Portfolio Manager	20+	10

- **Gabriel Radzyminski - Managing Director and Chief Investment Officer:**. Mr. Radzyminski has over 25 years' investment experience across a range of asset classes. Prior to founding Sandon Capital, Gabriel held portfolio and overall management responsibilities for Specialised Private Capital Ltd, a boutique funds management business which at the time of his departure had $150 million of funds under management. Mr. Radzyminski began his career working for First State Fund Managers (now Colonial First State). He worked as an investment analyst for Godfrey Pembroke, was co-head of research at Berkley Group, and prior to founding Sandon Capital, was Head of Private Capital at Centric Wealth. He was a director of Centric Wealth Ltd from 2005- 2007, a director of Specialised Private Capital Ltd from 2005-2008, a director of Berkley Group Holdings Ltd from 2004-2008. Gabriel is Chairman of Sandon Capital Investments Limited, and also non-executive director of Future Generation Investment Company Limited (ASX:FGX). Mr. Radzyminski has a BA (Hons) and MCom from the University of New South Wales.
- **Campbell Morgan - Portfolio Manager**: Mr. Morgan joined Sandon in 2014 and has over 20 years of experience in both Australian and International financial markets. Prior to joining Sandon, Mr. Morgan managed a Global Materials portfolio for Millennium, a New York based hedge fund with >US$70bn under management. Prior to this he was a Senior Analyst for a Global Industrials portfolio at Citadel Investment Group, a US$60bn Chicago based hedge fund. Mr. Morgan started his career in Australia, working in the Institutional Bank at ANZ and after that as an Equity Research Analyst for Merrill Lynch before moving overseas in 2007 to work in Funds Management.

INVESTMENT PROCESS

Investment Philosophy

Sandon Capital is an activist value manager. The Manager believes in traditional value investing and believes that activism is the logical extension of value investing. The Manager views activism as a critical, and often missing tool in value investing. The Manager believes that stocks identified as 'value' are cheap for a reason, with that reason typically being underperformance in some aspects. The focus is on such stocks where change can either improve value or where there is an opportunity to make obvious to the market the changes required to realise that value.

The Manager's investment philosophy also focuses on the risk associated with a potential investment where risk is defined as the probability of permanent loss of capital, rather than price volatility. The Manager particularly focuses on the nature of the investment risks (for example asymmetric or binary) and whether potential returns are adequate given the risks.

The Investment Manager believes the commitment of time, energy and capital is justified in light of the potential for reward. The Investment Manager may seek to be a catalyst to realise value from an investment by taking an active role in effecting corporate change, either working alone or in conjunction with other investors. These activist techniques may include working with management or other more aggressive steps such as acquiring substantial publicly disclosed stakes in issuers, proposing a restructuring, recapitalisation, sale, or other change in strategic direction, seeking potential acquirers, engaging in proxy contests, making tender offers, changing management and other related activities. The Investment Manager believes that these activist techniques can both accelerate and maximise the realisation of value from an investment.

Investment Process

In terms of investment idea generation, the Manager seeks to identify a broad range of opportunities. Some investment ideas are internally generated, some of which by way of the screening quantitative and qualitative process which help the Manager identify companies deserving of attention. Some ideas are also referred to the Manager, for example from other fund managers that may suggest a particular underperforming investment may warrant examining from an activist perspective.

Detailed analysis is then carried out for companies that have potential to be added to the watch list. Bottom up valuation and assessment at both company and industry level are conducted and the Manager focuses on evaluating the following key aspects:

- Financial performance including risks and opportunities to balance sheet and cashflows
- Strategy
- Governance and Management
- Valuations
- Activist opportunity set

The Manager seeks companies that satisfy both value and activist opportunity criteria. As a value investor, the Manager undertakes detailed bottom up analysis to form a strong view on the intrinsic company value. Activist opportunities may include: Operational inefficiencies, Structural changes, Board /management changes, M&A activity, Capital management. Securities meeting only one criteria (value or activist) are placed on watchlist.

Where the Manager believes a company satisfies the value and activist opportunity it may proceed with an investment. It does so with a price discipline, specifically waiting until opportunities present themselves to acquire securities at prices that provide a sufficient margin of safety to the assessment of intrinsic value.

Once an investment is made the Manager will then begin an engagement process. There is generally a significant amount of time spent on the engagement process during the early stage of an investment holding period. Unique to the Investment Manager's active engagement strategy is the Investment Team's ability to synthesise disparate pieces of public information and insights from other stakeholders (including boards, management and shareholders of target companies), understand the factors which are most likely to motivate key stakeholders' current actions (or inactions) and their potential reaction to proposed change. The process requires rigorous analysis to build shareholder consensus and a high level of vigilance and flexibility to adapt the activist strategy over time as new information comes to light. Proposed changes may include restructuring, recapitalisation, sale, change in strategic direction, seeking potential acquirers, changing management and other related activities.

Existing investments are monitored on a continuous basis. New information is analysed for its potential impact on the company and/or the Manager's investment thesis. Daily price drawdown of 5% or more will also trigger a review. If the fundamentals of an investment have changed such that the Manager's initial view of the value of an investment is impaired and the margin of safety has considerably narrowed, the investment will likely be sold. Where an investment thesis plays out and the particular event realised the Manager will then exit the investment in an orderly manner.

Portfolio Construction

SNC's portfolio consists of three 'buckets' : Core, Event Driven, and Cash. The fund has an internal investment objective of seeking investments that can reasonably be expected to double in value every 5 years, ie. 15% p.a. Position size is based on risk reward payoffs taking into consideration an assessment of risk factors focused on the risk of permanent capital loss, the risk of failing to achieve the activist objectives and expected upside over an anticipated time frame. Sizing of positions may also be influenced by the Manager's ability to hedge unwanted risk factors.

The first, and most significant, is the Manager's core holdings. Top 10 holdings in the Core basket often account for 50-70% of the portfolio, reflecting the concentrated nature of SNC. The degree of activism for the stocks in this basket can vary through the holding period. For example, a stock may satisfy both value and activist opportunities at initial investment, but may be continuously held when the Manager views the activist opportunities have evolved or diminished yet valuation upside is still attractive.

The second bucket is what the Manager refers to as 'Event Driven/Run-Off' investments. This is a mix of previous core activist holdings in which the investment thesis has come to fruition (or otherwise) and are in the process of being divested. A far smaller component of this bucket represents event-driven investment opportunities, generally merger arbitrage investments. Each merger arbitrage investment is typically of a size of no more than 1%-2% of the portfolio, are short duration and are purely designed to provide an incremental degree of return over cash. The Manager solely invests in announced deals, as opposed to speculating on possible deals. This bucket accounts for most of the total number of portfolio holdings, but a significantly smaller percentage of the total portfolio than the core activist holdings.

The third bucket is cash. Long term cash holding is expected to average between 5%-20%, however the portfolio is currently fully invested. The Manager can maintain a material cash holding in order to provide the flexibility to make investments when opportunities present themselves.

Given the activist investment style there will generally be no more than 10 core activist positions in the portfolio. There are some high level investment guidelines, which include initial positions can be 7.5% and up to 15% if the asset has sufficient liquidity, with the Manager generally trimming a position if it appreciates to a greater than 20% weighting in the portfolio. Gross exposure can not exceed 150%. As at 30 September 2024 gross exposure was 115%. Exposure to International securities are limited to 15% as the Manager is of the view that it is difficult to apply its activist approach as an international investor.

Typical portfolio construction guidelines include:

- Core longs 10-15 positions; average sizing around 5-7 % equity; Max sizing 15% (at cost);
- Non-core longs 5-10 positions at an average 1.5% sizing; guideline for maximum sizing 2.5% (at cost);
- Short positions typically limited to 1 to 2 positions; average sizing around 1% equity.

In most instances the Manager does not actively hedge portfolio positions. However, it may consider hedging when engaging in merger arbitrage opportunities. The Manager may also consider hedging certain activist positions, for example, when undertaking closed end fund activism, where an appropriate market hedge is available to isolate the discount to NTA risks. Position sizing will form a large part of the decision to hedge or not, specifically the Manager will more likely seek to hedge out market risk with larger positions.

PORTFOLIO POSITIONING

The SNC portfolio is concentrated and typically comprises 25-40 securities. We note that the acquisition of Mercantile Investment Company in 2019 and integration of its portfolio into SNC increased diversification and the number of securities held in the SNC portfolio. The Manager views the streamline of the portfolio post the MVT acquisition is mostly complete, and expects the number of portfolio holdings to reflect the long-term range.

As of 30 June 2024, the SNC portfolio held 40 securities. The top 5 holdings (tabled below) accounted for 43% of the portfolio.

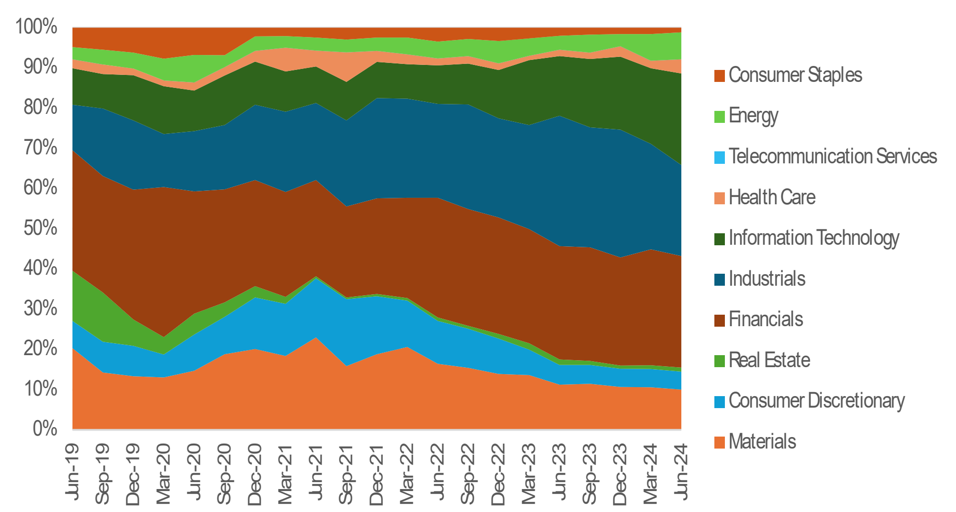
Top 5 Holdings (as at 30 June 2024)			
Company Name	**Weighting**	**Sector**	**Country**
Spectra Systems Corp (UK)	11.9%	Information Technology	UK
Fleetwood Corporation Ltd	9.3%	Industrials	AU
COG Financial Services Ltd	9.0%	Financials	AU
Coventry Group Limited	7.7%	Industrials	AU
Global Data Center	5.1%	Information Technology	AU
Total	**43.1%**		

As is highlighted by the below table, the portfolio is diversified by sector. At 30 June 2024, the portfolio was weighted to the Financials, Information Technology and Industrials sectors with 69.9% of the portfolio allocated to these three sectors. Compared to the S&P/ASX Small Ords Index, the SNC Portfolio was overweight to these three sectors, with the largest underweights being to the Materials, Consumer Discretionary and Real Estate sectors. The strategy has not held any position in the Telecommunication Services sector in the five year period ending June 2024, this is not to say this will always be the case.

Sector Allocation (as at 30 June 2024)			
Sector	**SNC**	**S&P/ASX Small Ords Index**	**S&P/ASX All Ords Index**
Materials	9.6%	20.5%	21.4%
Consumer Discretionary	4.2%	7.2%	15.9%
Real Estate	1.0%	6.4%	11.4%
Financials	26.5%	29.3%	10.6%
Industrials	21.6%	7.8%	10.5%
Information Technology	21.8%	4.0%	6.1%
Health Care	3.3%	10.2%	8.0%
Telecommunication Services	0.0%	4.5%	9.0%
Energy	6.4%	4.8%	5.0%
Consumer Staples	1.2%	3.8%	2.1%
Utilities	0.0%	0.0%	1.4%
Cash	4.3%	na	na

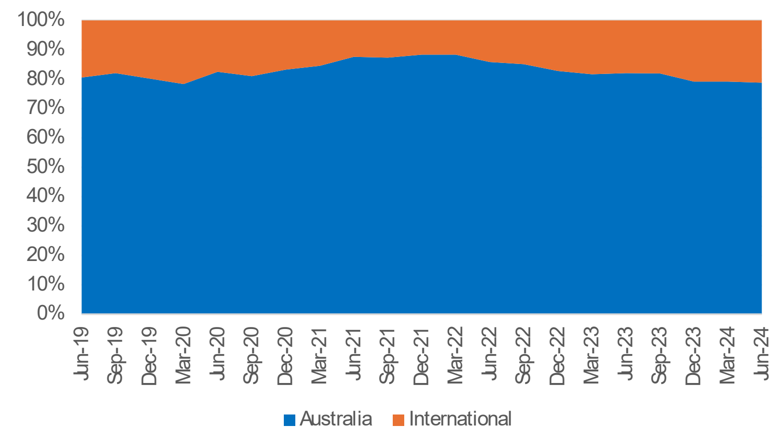
The below chart shows the historic sector allocation of the strategy to 30 June 2024. In recent years, the Company increased its allocation to Energy and Financials sectors, funded from a reduction in exposure to Real Estate and Industrials. The rotation in sector allocation is mostly be driven by bottom up stock research.

Historic Sector Allocation of Strategy (5 years to 30 June 2024)



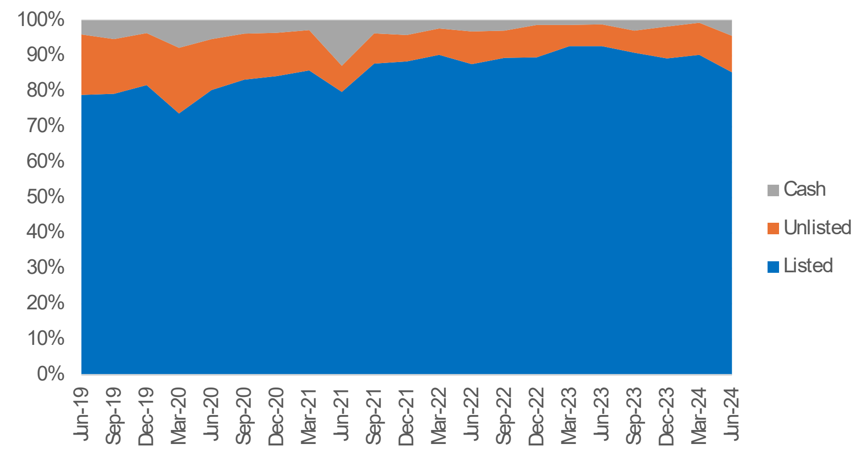
The strategy will typically be exposed to companies listed in Australia, as is highlighted by the below historical portfolio domestic vs. international weightings. This is to be expected given the Manager views its activist approach of investing is less effective as a foreign investor, and thus placed a 15% limit to overseas investments. As at 30 June 2024, 78.9% of the portfolio was allocated to Australia, while overseas exposure included UK listed stocks (13.7%) and unlisted securities in New Zealand (4.7%) and Singapore (2.7%). While this is in excess of the 15% international guideline, the New Zealand investment is in the process of being wound down and the Singapore exposure is represented by cash deposits.

Historic Portfolio Composition Domestic vs. Overseas (5 years to 30 June 2024)



SNC primarily invests in listed small cap securities, however will hold unlisted securities from time to time due to its investment approach. Unlisted securities represented 10.3% of the portfolio as at 30 June 2024. The holdings in unlisted securities were higher during 2019 and 2020, partly due to the acquisition of MVT and the integration of its portfolio. The Manager seeks to be largely invested although long term cash holdings are expected to be 5-20%. The portfolio has been mostly fully invested in recent years and had low levels of cash with 4.4% cash at 30 June 2024. Higher levels of cash was observed in June 2021 (12.8%) following takeover activity and the restructure of a LIC.

Historic Portfolio Exposure (5 years to 30 June 2024)



The top 5 unlisted holdings as at 30 June 2024 are summarised in the table below. The Company recently acquired all the outstanding shares in Carbon Conscious Investments Ltd (CCIL). CCIL is an unlisted public company that holds carbon property rights with respect to 30 farms in the WA wheatbelt covering ~17,000 hectares. Prior to the acquisition, SNC and associates owned 16.7% of the shares on issue.

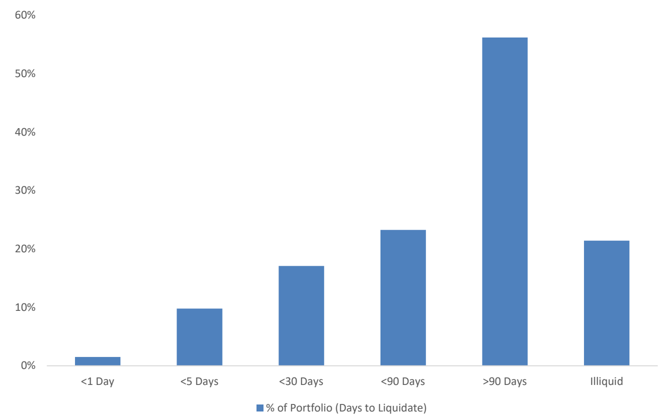
SNC acquired the outstanding shares at a price of $0.0667 per share. The Independent Expert valued the company at between 7.82 and 8.61 cents per share meaning SNC were able to acquire the shares at a discount. SNC has valued the shares at the mid-point of the independent expert’s range at 8.22 cents per share, providing a boost to the NTA. Subject to the outcome of a strategic review after the completion of the acquisition SNC expects to continue to operate the CCIL business in substantially the same manner as it is presently operated.

Top 5 holdings in Unlisted Securities (as at 30 June 2024)			
	Weight (%)	Market	Sector
Foundation Life Ltd	4.7%	NZ	Financials
Yellow Brick Road Ltd	4.6%	AU	Financials
Richfield International Limited	2.7%	SGD	Industrial
ASK Funding Limited	1.4%	AU	Financials
Carbon Conscious Investments (CCIL)	1.0%*	AU	Industrial

*Post the acquisition, the CCIL position has increased to 8.6% of the portfolio.

Liquidity of the SNC portfolio is limited, as can be expected from a small cap investment company with an activist approach. Based on the Manager's estimate, as at end of September 2024, half of the SNC portfolio exposure would require more than 90 days to liquidate, whilst only around 10% of the Portfolio exposure can be liquidated within 5 days. Illiquid holdings including unlisted securities accounted for around 20% of the portfolio.

SNC Portfolio Liquidity Profile (as at 30 September 2024)

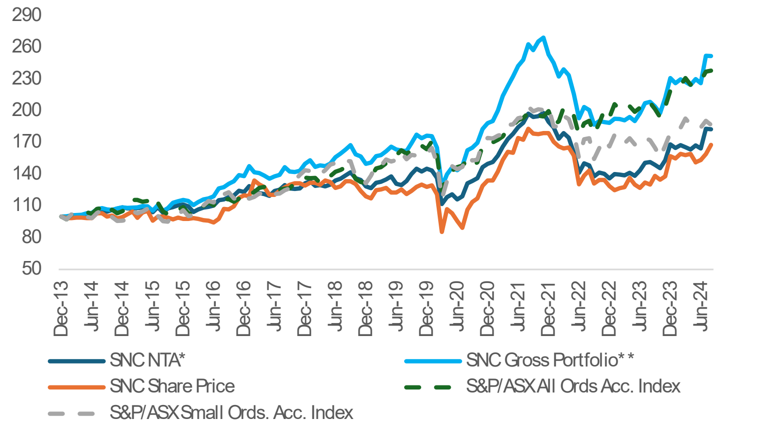


PERFORMANCE ANALYTICS

Below we take a look at the performance of the SNC portfolio and share price since listing. While the Company has a cash performance hurdle, the relative performance of the portfolio is important for investors to understand the risk/return profile of an investment in the Company. As such we have included the performance of both the S&P/ASX All Ordinaries Accumulation Index ("All Ords") and S&P/ASX Small Ordinaries Accumulation Index ("Small Ords"). While the Company can invest in stocks of any size, the portfolio is typically exposed to smaller cap stocks, which makes the Small Ords an appropriate benchmark when looking at relative performance of the portfolio.

Since listing in December 2013, SNC's portfolio on a gross basis has kept pace with the All Ords and outperformed the Small Ords. We note gross returns are after management fees and brokerage but before performance fees and corporate expenses. While the portfolio on a gross basis has kept pace with the broader market, after taking into account all fees, expenses and realised tax, the portfolio has underperformed the All Ords quite significantly and more modestly underperformed the Small Ords. As is highlighted below, the Small Ords has underperformed their large cap counterparts in recent years. This has weighed on the portfolio given the portfolio has not had exposure to large caps.

Indexed Cumulative Total Return (31 December 2013 to 31 August 2024)



*After tax on realised gains but before tax on unrealised gains.
**Gross performance is after management fees and brokerage but before performance fees and corporate expenses.

Source: Sandon Capital, Iress, IIR.

While the NTA has underperformed both the broader All Ords and Small Ords over the longer-term, the portfolio has performed well in the short-term, with the portfolio outperforming both indices over the 12 months to 31 August 2024.

The return profile of this activist, event-driven and highly concentrated investment strategy has understandably been idiosyncratic, lumpy and low correlation for an equities mandate (circa 0.65) to the Australian Small Cap equities market. Investors should take a long-term view to an investment in SNC and generally expect divergent performance to the broader market, with periods of material out- and-underperformance.

The volatility of the portfolio (NTA) has been comparable to the All Ords Index over the long-term, however has had periods of heightened volatility as can be seen over the various time frames below. The dislocation of the share price and the NTA has resulted in shareholder volatility being higher than the portfolio.

The differentiated return profile is highlighted by the tracking error, which has been high (over 10%) over all periods, when compared to the Small Ords.

Performance Metrics (to 31 August 2024)

	SNC NTA*	SNC Share Price	ASX Small Ords	ASX All Ords
Cumulative Total Return:				
1 Year	20.5%	28.9%	8.5%	14.7%
3 Year (p.a.)	-2.5%	-2.8%	-2.9%	6.3%
5 year (p.a.)	6.4%	6.7%	3.9%	8.4%
Since Listing (p.a.)	5.8%	5.0%	6.0%	8.5%
Standard Deviation:				
1 Year	16.4%	17.0%	14.6%	11.6%
3 year (p.a.)	15.8%	17.9%	18.2%	14.0%
5 year (p.a.)	17.2%	26.2%	16.8%	16.8%
Since Listing (p.a.)	13.2%	19.8%	16.8%	13.8%
Tracking Error:**				
1 Year	12.1%	17.9%	na	na
3 year (p.a.)	11.8%	14.9%	na	na
5 year (p.a.)	12.1%	17.4%	na	na
Since Listing (p.a.)	12.3%	15.6%	na	na
Correlation:**				
1 Year	0.70	0.36	1.00	0.96
3 year (p.a.)	0.77	0.66	1.00	0.96
5 year (p.a.)	0.81	0.75	1.00	0.95
Since Listing (p.a.)	0.69	0.65	1.00	0.93

*After tax on realised gains but before tax on unrealised gains.

** Compared to the S&P/ASX Small Ords. Accum. Index.

Capital Preservation

One of the characteristics expected from a deep value investment strategy is capital preservation in down markets. Below we take a look at the market capture of the NTA compared to the S&P/ASX All Ords over varying periods to 31 August 2024. The table highlights that the portfolio has provided strong capital preservation in down markets over both the short and the long term. As is often the case with value strategies, the portfolio has given up on the upside to achieve the capital preservation. Since listing, the capital preservation in down market has actually offset the amount given away in up markets with the NTA having a positive market capture ratio.

SNC NTA* Market Capture (to 31 August 2024)

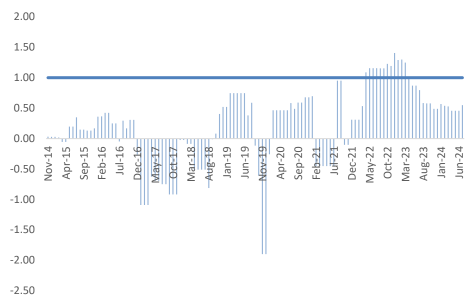
	Up Market Capture	Down Market Capture	Market Capture
1 Year	1.026	0.549	1.87
3 Year (p.a.)	0.543	0.917	0.59
5 year (p.a.)	0.638	0.684	0.93
Since Listing (p.a.)	0.542	0.463	1.17

*After tax on realised gains but before tax on unrealised gains.

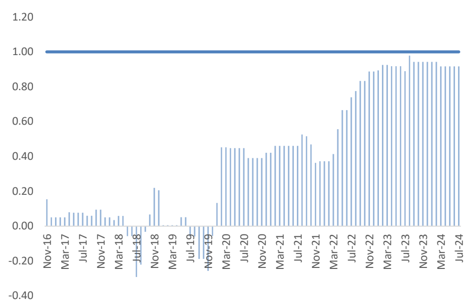
The below charts show the down market capture ratio over rolling 12-month and 3 year periods to further highlight the capital preservation provided by the strategy in down markets. While there has been the odd occasion when the portfolio has declined by more than the market in down markets over shorter term periods, the portfolio has pretty consistently delivered meaningful capital preservation.

SNC NTA Down Market Capture

Rolling 12-month



Rolling 3 year



Dividends

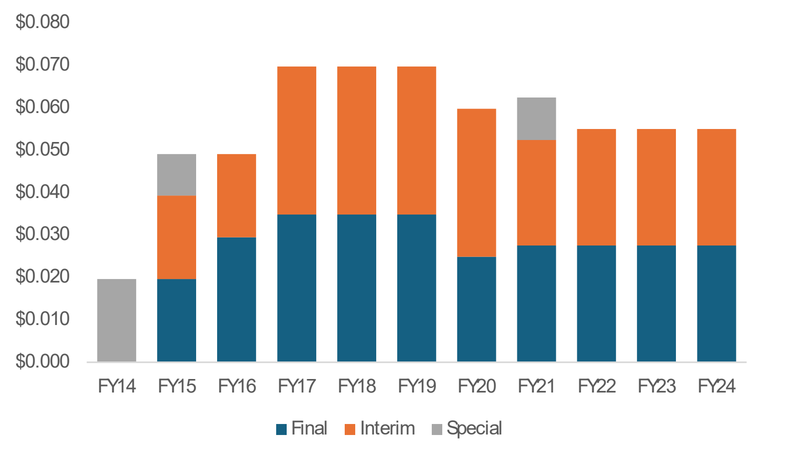
Throughout its history, SNC has paid a relatively stable dividend. In the initial years of paying a dividend, the Company increased the annual dividend quite aggressively, before paring it back after the events of the global pandemic.

The Company has paid over 60 cents per share in dividends since listing, with more than 23 cents per share of imputation credits. The Directors remain committed to continue to do so over the foreseeable future.

On 12 December 2024, the Company announced it will be increasing the dividend frequency from semi-annual to quarterly, commencing in for the March 2025 quarter. The Company has over 4 years of fully franked dividend coverage at the annual dividend rate new dividend rate of 5.6 cents per share. As such we the risks to a dividend cut in the near-term to be low.

While dividend/distribution income was high in FY24, historically the income received but the Company has been below the amount of dividends paid, net of the DRP. As such, if the portfolio to does not provide for capital growth the maintenance of the dividend may have a negative impact on the capital growth of the portfolio, which is a key objective of the Company.

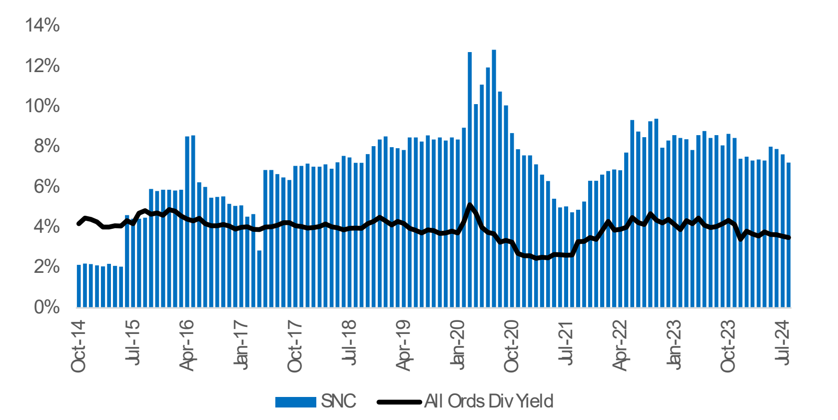
SNC Dividends Declared by Financial Year



Since the first dividend went ex in October 2014, SNC's trailing 12-month net dividend yield has averaged around 7%, similar to its current level. All dividends paid to date have been fully franked. Franking credits are based on the company tax rate of 25%.

There was a high level of dividend yield observed in 2020 as a result of the dividend being paid and the decline in the share price that occurred as a response to the global pandemic, similar to the decline experienced across the broader market. As a result of the high dividend yield and as a response to the market environment, the Company reduced the final dividend for the FY20 period.

SNC Trailing 12-Month Net Dividend Yield (31 October 2014 to 31 August 2024)



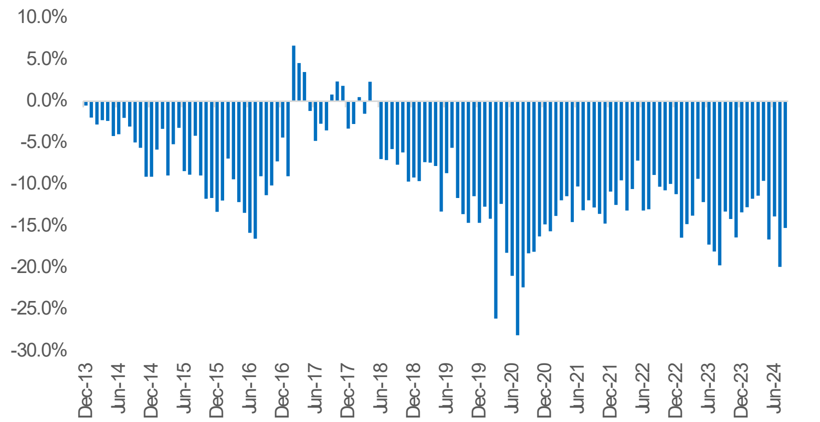
Premium / Discount

SNC has largely traded at a discount to NTA throughout its history, although we note that the situation has improved from the extreme discount levels experienced during the global pandemic. SNC's share price was trading at -15.8% to its NTA at 31 August 2024, higher than the average discount of around 10% since its listing.

Discounts to NTA can often reflect less than strong communication to the investor market. However, in the case of the Manager, we believe the Manager has maintained a solid level of communication to its investor base. In the case of SNC, historically the persistence of a discount most likely reflects SNC's relatively small size and low liquidity. Additionally, we acknowledge that Australian investors generally exhibit an ignorance of activist investing and the perception is it runs contrary to the general culture of the Australian retail investor base which can be quite critical of relative poor performance. This is despite the commonality of such strategies in other Western markets and the ability to make the argument that such investment strategies serve a greater good by shaking up poorly performing management teams.

Premium/discounts to NTA represent both an opportunity and a threat to investors with respect to investment and divestment timing. It also adds to the volatility of an investment over that of NTA.

SNC Premium/Discount to NTA* (31 December 2013 to 31 August 2024)



*NTA is after tax on realised gains and before tax on unrealised gains.

PEER COMPARISON

SNC is unique in LIC/LIT market in that it takes a long term activist approach. Its portfolio and investment universe are mostly ASX ex-100 listed companies and can include unlisted securities as well as overseas investments. We provide a comparison of the key features of Australian equity small cap focused LICs on the ASX that are considered peers of the Company. While there is an unlisted version of the strategy (SCAF), we focus on the features of the listed peers.

With the exception of Thorney Opportunities Ltd (ASX: TOP), which seeks to use a constructive catalyst towards unlocking the value in its portfolio companies and considers its approach "constructivism", the investment strategies of the peers do not explicitly utilise an activist approach. While the LICs/LITs in the peer group will provide exposure to small cap stocks they may have SMID or all cap mandates and can have exposure to mid and large cap stocks.

SNC's fees are slightly higher than average when compared to the peer group. SNC pays a performance fee on returns over cash subject to a High Water Mark. This is a relatively low hurdle compared to a number of other LICs/LITs in which the Managers utilise equity index performance or a cash+ hurdle. This may result in a high level of fee leakage during periods of strong portfolio performance.

Peer Group (as at 31 August 2024)

LIC	Ticker	Market Cap ($million)*	Management Fee (% p.a.)	Performance Fee (% p.a.)	Performance Hurdle
Cadence Capital	CDM	$216.0	1.00	15.0	High Water Mark
Cadence Opportunities Fund Limited	CDO	$27.9	1.25	15.0	Previous High NTA
ECP Emerging Growth Limited	ECP	$26.6	1.00	20.0	8% p.a.
Glennon Small Companies Fund	GC1	$21.5	1.00	20.0	ASX All Ords Accum. Index
Mirrabooka Investments Limited	MIR	$656.6	0.59	na	n/a
Naos Absolute Opportunities Company	NAC	$23.5	1.75	20.0	RBA Cash Rate + 2.5%
Naos Emerging Opp Company	NCC	$31.0	1.25	15.0	S&P/ASX Small Ords Acc Index
Naos Small Cap Opportunities Company Limited	NSC	$64.7	1.15	20.0	S&P/ASX Small Ords Acc Index
Ophir High Conviction Fund	OPH	$592.1	1.23	20.5	50% ASX Small Ordinaries Acc Index/50% ASX Midcap 50 Acc Index
Ryder Capital Limited	RYD	$94.6	1.25	20.0	RBA Cash Rate + 4.25%
Spheria Emerging Companies Limited	SEC	$130.3	1.00	20.0	S&P/ASX Small Ords Acc Index

Peer Group (as at 31 August 2024)					
LIC	Ticker	Market Cap ($million)*	Management Fee (% p.a.)	Performance Fee (% p.a.)	Performance Hurdle
Sandon Capital Investments Limited	**SNC**	**$108.4**	**1.25**	**20.0**	**30 day BBSW, subject to High Water Mark**
Thorney Opportunities	TOP	$121.2	1.50	20.0	Increase in NAV over a financial year period.
WAM Capital Limited	WAM	$1,770.2	1.00	20.0	ASX All Ords Accum. Index

*As at 31 August 2024.

Performance

The below provides the performance metrics to 31 August 2024 of the peer group with longer than 10 year track record. We note that SNC is the only small cap focused mandate with an explicit activist investment approach.

Over the 1 year period to 31 August 2024, SNC's portfolio performed well against its peers. This return was achieved with below average volatility, translating to an above average Sharpe Ratio for SNC. We note that NTA return volatility for SNC has been lower over time when compared to peer group. This may be attributable its long term activist investment approach. Over the longer term, the NTA returns and Sharpe ratio of SNC were around the middle of the peer group.

From a share price return perspective, SNC delivered good returns for 1 year ending 31 August 2024, with shareholder returns outperforming the NTA returns as a result of the discount narrowing. SNC's share price performance was around the middle of the peer group over the 5 and 10 year periods.

Risk & Returns (as at 31 August 2024)								
	CDM	ECP	MIR	NCC	NSC	SNC	TOP	WAM
Cumulative Total NAV Returns								
1 year	7.4%	17.7%	15.4%	-35.6%	-25.3%	**20.5%**	37.2%	14.2%
5 year (p.a.)	-0.4%	13.9%	13.1%	-10.1%	-4.0%	**7.2%**	6.8%	7.9%
10 years (p.a.)	1.0%	9.0%	9.2%	-2.9%	-2.1%	**5.6%**	9.6%	7.7%
Standard Deviation								
1 year	8.1%	23.9%	16.2%	21.6%	34.0%	**16.4%**	13.5%	11.9%
5 year (p.a.)	18.4%	26.5%	20.1%	23.4%	25.8%	**17.2%**	23.0%	14.4%
10 years (p.a.)	15.4%	21.6%	16.0%	18.1%	21.1%	**13.6%**	18.6%	11.3%
Sharpe Ratio								
1 year	0.90	0.74	0.95	-1.64	-0.74	**1.25**	2.75	**1.20**
5 year (p.a.)	-0.02	0.52	0.65	-0.43	-0.15	**0.42**	0.30	**0.55**
10 years (p.a.)	0.07	0.42	0.58	-0.16	-0.10	**0.41**	0.51	**0.68**
Cumulative Total Share Price Returns								
1 year	3.6%	45.7%	21.2%	-35.6%	-26.1%	**28.9%**	43.9%	**5.5%**
5 year (p.a.)	-3.3%	15.5%	11.5%	-13.2%	-4.2%	**4.9%**	3.1%	**1.4%**
10 years (p.a.)	-0.5%	7.1%	7.2%	-2.6%	-2.0%	**5.0%**	7.1%	**5.0%**

Dividend Yield & Premium/Discount

The below shows the grossed-up dividend yield of the broader peer group as at 31 August 2024 based on the trailing 12-month dividends and the premium/discount to NTA as at 31 August 2024.

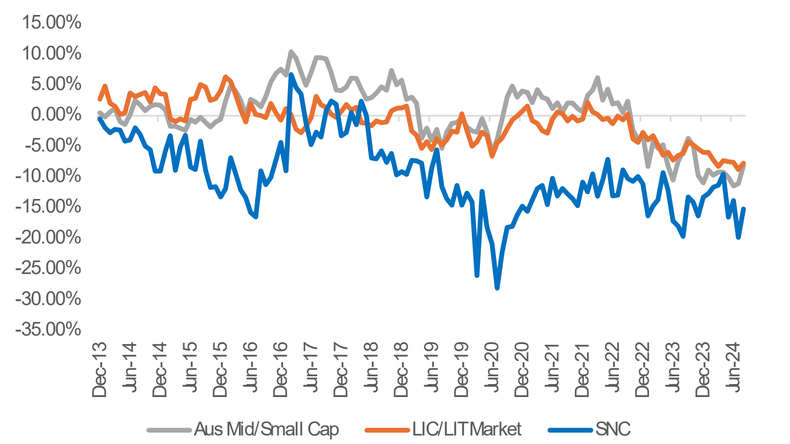
Excluding the dividend yield of the outliers of NAC, NCC and NSC, whose yields are high as a result of a material decline in the share price, SNC offers an attractive grossed-up dividend yield when compared to the peer group. Investors are able to access this yield at an attractive discount to NTA.

Trailing 12-month Gross Dividend Yield & Premium/Discount (as at 31 August 2024)		
LIC	**Grossed-up Trailing 12-month Dividend Yield**	**Premium/Discount to NTA**
CDM	11.8%	-10.7%
CDO	10.4%	-6.6%
ECP	5.3%	-17.0%
GC1	9.5%	-37.5%
MIR	5.5%	3.4%
NAC	16.0%	10.0%
NCC	23.8%	-12.5%
NSC	14.9%	-15.8%
OPH	4.0%	-11.0%
RYD	10.4%	-22.9%
SEC	7.9%	-6.9%
SNC	**9.6%**	**-15.2%**
TOP	5.0%	-29.9%
WAM	13.1%	-6.2%

The below chart shows the market cap weighted average premium/discount for the Australian small/mid cap LICs/LITs and the LIC/LIT market as a whole compared to SNC's discount. Over the last few years, the LIC/LIT markets as a whole has been trading at a discount to NTA with small/mid cap LICs/LITs trading in line with the broader market as at 31 August 2024.

Historically, SNC has traded at an elevated discount to its small/mid cap peers and the broader market, although this gap has closed in the last 12-months. Given the structural characteristics of SNC discussed above, the Company will be prone to trading at a discount. However, these discounts can provide opportunities for investors, particularly during periods of relative outperformance of the portfolio.

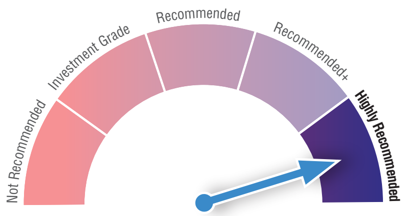
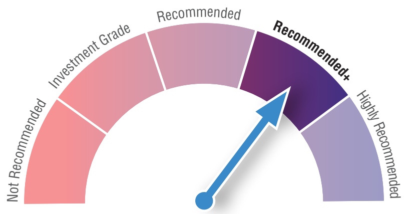
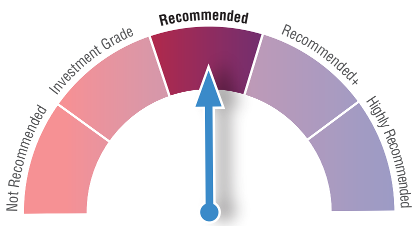
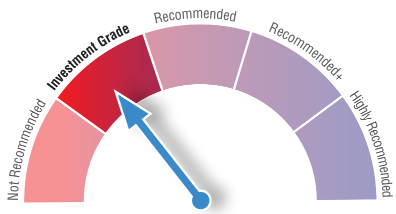
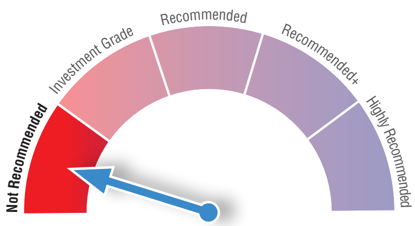
Market Cap Weighted Average Premium/Discount



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system.

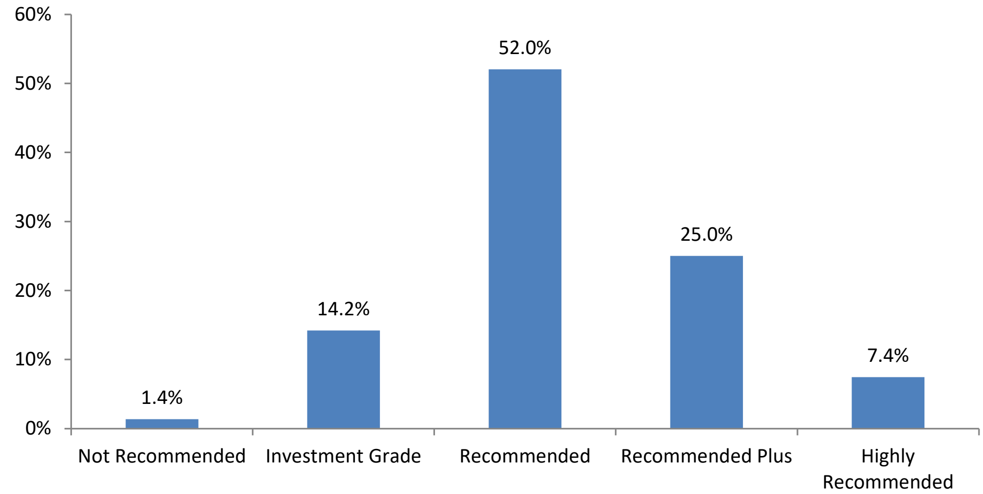
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	83 and above
	This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.
Recommended +	79–83
	This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.
Recommended	70–79
	This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.
Investment Grade	60-70
	This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.
Not Recommended	<60
	This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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