AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

Sandon Capital Investments Limited (ASX: SNC)

September 2018

INDEPENDENT INVESTMENT RESEARCH

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1) The research process has complete editorial independence from the company and this is included in the contract with the company;
2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
3) Our research does not provide a recommendation, in that, we do not provide a "Buy, Sell or Hold" on any stocks. This is left to the Adviser who knows their client and the individual portfolio of the client.
4) Our research process for valuation is usually more conservative than what is adopted in Broking firms in general sense. Our firm has a conservative bias on assumptions provided by management as compared to Broking firms.
5) All research mandates are settled upfront so as to remove any influence on ultimate report conclusion;
6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

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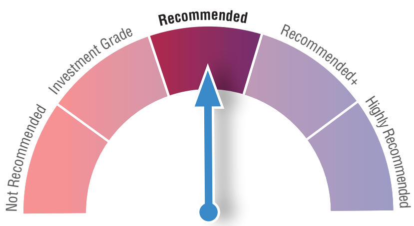
Sandon Capital Investments Limited (ASX: SNC)

Note: This report is based on information provided by the company as at September 2018

Rating



Key Investment Information

Name of LIC	Sandon Capital Investments Limited
Investment Manager	Sandon Capital Pty Ltd
Investment Type	LIC
ASX Code	SNC
NTA (Pre-tax)	$1.006
Share Price	$0.96
Shares on Issue (m)	48.44
Market Capitalisation	$46.50m
Options Outstanding (m)	Nil
Distribution Policy	Six-monthly
Benchmark	30 day BBSW
FX Exposure	Actively managed
MER	1.25%
Performance Fee	20% of net return in excess of benchmark (BBSW)

Fees Commentary

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 X%' would be more appropriate as a more commensurate with the risk profile of the investment strategy. We note that total fee and cost 'leakage' is not immaterial.

Portfolio Characteristics (30 June 2018)

Number of stocks	15-30
Single Security (Long)	Guideline Max 20%
Single Security (Short)	Guideline Max 1.0%
Net Equity Exposure	Typically 75-95% NAV
Gross Equity Exposure	Max 150% of NAV
Top 5	53.1%
Top 10	73.9%
Cash	3.7%

Note: This report is based on information provided by the Issuer as at September 2018

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.

OVERVIEW

Sandon Capital Investments Limited (SNC or 'the Company') listed in December 2013 and is managed by Sandon Capital Pty Ltd (the 'Manager'). Sandon Capital is a deep-value Australian equities manager that uses activism as a tool to preserve or enhance 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, which commenced in September 2009 (9-year track-record) and is based on the same investment strategy (bar a number of portfolio variations). Based on a dedicated activist investment strategy, SNC is a unique 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 compriseses Australian equities, up to 15% international equities, cash and at times a very limited number of short positions. The returns profile is idiosyncratic, largely event driven and exhibits a low correlation to the broader Australian equities market. Over SNC's 4-year track-record, the Company has underperformed the Australian equities market, although we note SCAF has materially outperformed over its longer track record. Based on both its deep value and activist investment style, investors should expect prolonged periods of out- and under-performance relative to the broader Australian equities market. SNC has consistently delivered a relatively high and growing dividend and the Manager remains committed to doing so over the foreseeable future.

INVESTOR SUITABILITY

Investors should note that the portfolio will almost invariably exhibit low correlation to the Australian equities markets by the very nature of the investment strategy. Returns are largely company specific event driven and therefore idiosyncratic, being driven largely by when something happens to one of the portfolio holdings as opposed to necessarily rising and falling with the market. Specific Investments are generally long-term with the pay-off, or realisation of the investment thesis, often being of an event-driven nature. These 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 investment company management and/or shareholder base. Investors should therefore consider SNC a long-term investment. As a corollary, SNC's correlation with the Australian equities markets is low and, in this regard, 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. We note historically the investment strategy has recorded lower volatility and outperformed in down market environments. The Manager has a track-record, and commitment, to pay a stable and growing dividend.

RECOMMENDATION

IIR ascribes a "RECOMMENDED" rating to Sandon Capital Investments Limited. SNC is a genuinely differentiated product and one that provides genuine diversification benefits. Successful activist investing require skills and capabilities most professional investors do not possess 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 dogged determination required to extract identified value in underperforming investments. Performance has been true-to-style and strong in the case of the longer track-record SCAF. Somewhat offsetting the positives to a degree, we believe the performance fee structure could be improved, with investors benefiting from a lesser degree of fee and cost 'leakage'. We believe a restructuring of fees would be beneficial in attracting a broader investor base and growing FUM (in turn potentially lower total costs per unit). Additionally, we believe the high dividend policy is somewhat incongruous with the investment strategy, resulting in a lower cash holding in the portfolio than the Manager may otherwise choose if not for the strong high dividend preference of the existing shareholder base. As generally the case with smaller funds, there is a high degree of key man risk.

SWOT ANALYSIS

Strengths

- IIR views being a successful activist investor as requiring particular skills and abilities, the bulk of professional investors would not have. Not only does it require a 'nose' to sniff out an activist prospect and to gain the sense of a disquieted shareholder base, it also requires a dogged determination to pursue the activist strategy when company management is not agreeable to the strategy (which, is the majority of the time). We believe Managing Director and Chief Investment Officer (CIO), Gabriel Radzyminski possesses 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 dividend yield of 7.3% (10.0% grossed up for imputation credits). We note that SNC has profit reserves of 6.6 cps as at 31 July 2018 which, at this early stage of the FY19 period, is almost sufficent to cover the next two dividend payments (assuming a 7cps FY19 dividend).
- While the longer track-record wholesale fund does not represent a perfect proxy, we note that it has materially outperformed the broader Australian equities market over its near 9-year track-record.

Weakness

- 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 X%' benchmark would be more appropriate as it is more commensurate with the risk profile of the investment strategy.
- We believe the high dividend policy is somewhat incongruous with the investment strategy, resulting in a lower cash holding in the portfolio than the Manager may otherwise choose if not for the strong high dividend preference of existing shareholders. Additionally, it limits FUM growth, a benefit of which for shareholders could possibly be is lower costs per unit and a lower differential between gross and net returns.
- As is the case with many small FUM strategies, there is a high degree of key man risk with its Managing Director and CIO, Gabriel Radzyminski.

Opportunities

- A unique and differentiated product offering, with Sandon Capital being the only dedicated activist manager in Australia. Due to the idiosyncratic and event-driven nature of returns, the investment strategy has exhibited a very low correlation to the broader Australian equities market, presenting potential diversification benefits for investors.
- Premium / discount to NTA is both an opportunity and a threat. However, over the last 12-month period SNC has witnessed a general narrowing to what had been a persistent discount to NTA. The Manager's commitment to be more proactive on the communications front moving forward 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 (although it may be interesting to see whether the Banking Royal Commission may contribute to a shift in attitude).
- The Manager has openly stated that it wants to grow FUM. The dilemma for LICs is how to do so without introducing significant dilution risk. The potential benefit for shareholders is that higher FUM may potentially result in low total costs on a per share basis. We acknowledge that the Board and Manager has previously stated it will not grow FUM at the expense of existing shareholders.
- Investors should be aware that the portfolio's highly concentrated nature may result in heightened stock volatility. The core activist part of the portfolio consists of circa 10 stocks and represented approximately 75% of the total portfolio.

PRODUCT OVERVIEW

Sandon Capital Pty Ltd was incorporated in Australia in April 2008. The founder 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. It is 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 is the only dedicated activist fund manager in Australia and SNC the only such domestically based investment strategy for retail investors.

Collectively, the Sandon Capital group manages two discrete portfolios with similar strategies: Sandon Capital Investments Limited (ASX: SNC), the ASX-listed closed end investment company that is the subject of this report, and; Sandon Capital Activist Fund, a wholesale managed investment scheme. Both vehicles are based on the same investment strategy, although there are variations in cash and international equities portfolio allocations.

Since its inception in December 2013, NTA performance has been true to the activist, event driven nature of the strategy. Returns have been idiosyncratic, lumpy, and exhibited a low correlation to the broader Australian equities market. There have been periods of out- and under-performance. Investors should expect such a returns profile to continue and should view SNC as a long-term investment. To highlight the variability of returns of the strategy relative to the market, we note that SNC has marginally underperformed since inception while the longer dated wholesale fund has materially outperformed.

SNC has paid a relatively high and fully franked dividend over its investment life. There is an intention from the Directors to continue to do so moving forward, subject to the availability of profits and franking. To facilitate this, the Company maintains a retained earnings and franking credits buffer that at least covers the next dividend. SNC shares currently offer a dividend yield in the vicinity of 7.3% (10.0% grossed up for imputation credits).

Fees are an MER of 1.25% and a performance fee of 20% above excess returns of the cash benchmark (30-day BBSW) with a high watermark. We are accepting of the Manager's rationale for an absolute returns, cash based benchmark. First and foremost, the Manager ultimately seeks to deliver an absolute returns profile. Secondly, as a deep value manager, there is an understanding there will be long periods of underperformance. Finally, as an activist investor, cash is the default option and every investment decision stems from a decision to move away from the safety of cash. Having said that, we believe a 'cash plus X%' benchmark would be more appropriate as it is more commensurate with the risk profile of the investment strategy.

The Manager's main reason for a cash benchmark is that it helps ensure investment decisions are focused on delivering absolute returns, rather than chasing what may be unsustainable market returns in an attempt to maintain benchmark performance. This may be one of the reasons why the Manager's long term numbers exceed the benchmark. The investment strategy tends to outperform more on the downside than out performing on the upside.

In terms of capital management initiatives, in the past SNC has had two option issues and one share purchase plan initiative. All three proved only mildly dilutionary, as many of the options exercised were at a premium to NTA. There are currently no options outstanding nor other capital management initiatives currently in place.

However, the Manager is committed to growing the FUM of SNC but has also stated it will not do so at the expense of existing shareholders.

MANAGEMENT GROUP PROFILE

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 20 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 discrete portfolios with similar strategies: Sandon Capital Investments Limited (ASX: SNC), the ASX-listed closed end investment company that is the subject of this report, and; Sandon Capital Activist Fund, a wholesale managed investment scheme. Both vehicles are based on the same investment strategy, although there are material variations in portfolio allocations. Notably, SNC will typically have a materially lower degree of cash than the wholesale vehicle (due to the dividend expectations of the SNC shareholder base) and SNC is permitted to invest up to 15% of the portfolio in international equities (the wholesale vehicle is yet to be harmonised in this regard). Otherwise, all investments / trades are generally split on a pro-rata basis between the two investment vehicles.

Interests associated with Mr Radzyminski ultimately own 70% of the issued capital of Sandon Capital. A plan has been put in place in order to ensure individuals within the business are aligned with investors and incentivized to remain in the long-term. This involves remuneration planning and the potential to issue "Partner Points" of the business. This is accomplished through a Share Option Plan and Bonus-Retention Scheme.

The Manager also provides services to Mercantile Investment Company Ltd, an ASX listed investment company. Mr Radzyminski is also an executive director of this company. The arrangements between Mercantile and the Manager are disclosed publicly, and involve the Manager providing accounting and day to day management services for Mercantile Investment Company Ltd, and receiving a fee for such services. Sandon and Mercantile have from time to time formed associations in common investments. While the arrangement imposes time demands on Mr Radzyminski, there is a very high degree of overlap with the management of Sandon's activist investment strategy. As such, IIR does not believe the arrangement is detrimental to the investment management of SNC.

As at July 2018, the investment manager's AUM was approximately AUD $85 million.

INVESTMENT TEAM

The two person investment team consists of Gabriel Radzyminski and Campbell Morgan, who occupies the position of Analyst. Mr Morgan has been with the Manager for four years now. Prior turnover over the 10-year track-record of the Manager consists of two analysts, both for external reasons / personal motivations, as opposed to possibly reflecting internal team discord.

Predictably, as a small team, 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. Where deemed beneficial to the investment process, the Manager may on occasion utilise external industry experts in forming an investment view and devising an activist strategy. For example, the Manager has investments in the retail sector and in which external consultants assist the Manager in gaining the granularity that it wanted in a particular area of focus.

While the investment management process is very much a collaborative one, ultimately it is Mr Radzyminski that is responsible for all investment decisions.

IIR views being a successful activist investor as requiring particular skills and abilities, the bulk of professional investors would not have. Not only does it require a 'nose' to sniff out an activist prospect and to gain the sense of a disquieted shareholder base, it also requires a dogged determination to pursue the activist strategy when company management is not agreeable to the strategy (which is the majority of the time). We believe Mr Radzyminski possesses these skills.

There is a strong alignment with shareholders through the investment team's equity ownership (or options over ownership) as well as co-investment in SNC.

The key members of the investment team are detailed below.

- **Gabriel Radzyminski, Managing Director and Portfolio Manager.** As the founder of Sandon Capital, Gabriel Radzyminski has been involved in the financial services sector for almost 20 years. He has significant 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. Gabriel 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, is an executive director of Mercantile Investment Company Limited (ASX:MVT) and also non-executive director of Future Generation Investment Company Limited (ASX:FGX) . He is former Chairman of Armidale Investment Company Limited (ASX:AIK) and was a non-executive director of RHG Limited (ASX:RHG). Gabriel has a BA(Hons) and MCom from the University of New South Wales.

- **Campbell Morgan, Analyst.** Campbell joined Sandon in 2014 and has 15 years of experience in both Australian and International financial markets. Prior to joining Sandon, Campbell managed a Global Materials portfolio for Millennium, a New York based hedge fund with >US$30bn under management. Prior to this he was a Senior Analyst for a Global Industrials portfolio at Citadel Investment Group, a US$25bn Chicago based hedge fund. Campbell started his career in Australia, working in the Investment Bank at ANZ and after that as an Equity Research Analyst for Merrill Lynch before moving overseas in 2007 to work in Funds Management.

Key Investment Personnel

Name	Position	Tenure w/ Mgr	Ind Experience
Gabriel Radzyminski	Managing Director & Portfolio Manager	10 years	20 years
Campbell Morgan	Analyst	4 years	15 years

BOARD

The key point is the Board of Directors is independent and represents a solid mix of skill sets, complementarity, and experience. The Board of Directors comprises four members, three of which are independent. Mr Radzyminski is the only non-independent. The three independents are noted below.

Matthew Kidman is currently Chairman of Watermark Market Neutral Fund. He is a Director of Incubator Capital Limited and Centennial Asset Management Pty Ltd. He is also a Director of the investment management company Boutique Asset Management Pty Limited. Matthew worked as a portfolio manager at Wilson Asset Management (International) Pty Limited for 14 years and prior to joining Wilson Asset Management, Matthew worked as a finance journalist at the Sydney Morning Herald where he was made business editor of the paper and was charged with the responsibility of company coverage. Matthew retired as a Director of WAM Capital Limited in April 2018, WAM Research Limited and WAM Active Limited in June 2018. Matthew was appointed the Chair of the Sandon Capital Investments Limited Audit and Risk Committee on 10 May 2017.

Peter Velez is a corporate lawyer 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.

Melinda Snowden is a professional company director and experienced audit and risk committee member across a range of sectors. Melinda brings to the board a deep understanding of investment markets, governance disciplines and strategic insight. Melinda's other current directorships include Mercer Investments (Australia) Limited, WAM Leaders Limited, Kennards Self Storage Pty Ltd and Newington College. She is a former director of MLC Limited, the wealth management division of NAB, Vita Group Limited and SANE Australia. Prior to leaving her executive career in 2010, Melinda was a corporate advisor for over 15 years with firms Grant Samuel, Merrill Lynch and Goldman Sachs in Australia and New York.

INVESTMENT PROCESS

Investment Philosophy

Sandon Capital is an activist value manager. The Manager believes in traditional value investing but believes that activism is the logical extension of such style of investing. Activism is viewed as a critical, and often missing, tool of value investing. The Manager believes that stocks identified as 'value' are cheap for a reason, with that reason typically being underperformance in one form or the other. 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 philosophy is the key to successful activist investing is to have influence over a company which is proportionately greater than its economic investment. Where management is not open to change, this is done via the solicitation of support from other shareholders to effect change in a company which drives the share price toward its intrinsic value. The Manager's investment philosophy also focuses on the potential risks associated with an investment; particularly on the nature of the risks (for example asymmetric or binary) and whether potential returns are adequate given the risks.

As an activist investor, the Manager believes that human nature and conflicts of interest provide it with most if not all of its value investment opportunities. The Manager gives considerable thought to understanding the motivations that underlie corporate strategy and decisions. The Manager believes that many sub-optimal corporate decisions are ultimately the result of poor management or identification of conflicts of interest.

Investment Process

In terms of investment idea generation, the Manager is idea 'agnostic'. Some investment ideas are internally generated, some of which by way of the Manager's sectors screens 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 that a particular underperforming investment may warrant examining from an activist perspective.

In identifying opportunities 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 intrinsic company value. To satisfy the activist opportunity criteria there needs to be a disquieted shareholder base that is looking for, or open to change and where the Manager believes it has a better than even probability it can act as a catalyst to change.

Forming a view that a shareholder base will be open to change is an intensely subjective process for the Manager. However, there are often certain objective factors. The Manager holds the view that the majority of shareholders do not like significant change. For such proposed changes to gain support the Manager believes there needs to be exceptional circumstances. One of the easiest proxies for exceptional circumstances is a stock plumbing new lows. In such situations, investors are 'hurting', fearing further share price falls and looking for a solution to the pain and share price woes.

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. Initially, the engagement typically begins as private discussions between the Manager and the company. This goes for as long as it needs to go to the point where the Manager gains an indication that things will change in the way it believes to be value accretive or not. In the case of the latter, the Manager will then pivot and begin multilateral engagement with other shareholders to try to generate the consensus among the shareholders about the need to change and to gather support for its proposals such that the Board will inevitably conform to the will of the shareholders. Proposed changes may include restructuring, recapitalisation, sale, change in strategic direction, seeking potential acquirers, changing management and other related activities.

The Manager believes its ability to synthesize disparate pieces of public information and insights from other stakeholders (including boards, management and shareholders of its target companies), understand their motives and persuade them its proposals are in their interests are key to successful activist investing.

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. 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. The Manager is relatively immune to share price volatility (share price falls) if it believes its investment thesis still holds.

Portfolio Construction

SNC's portfolio consists of three 'buckets'. The first, and most significant, is the Manager's core activist holdings. As at May 2018, approximately 75% of the portfolio comprised such holdings consisting of 10 stocks. The latter highlights the concentrated nature of the portfolio, with the top 5 and top 10 holdings representing approximately 52% and 75% of the total portfolio, respectively. These core positions are at varying points of time either very active or very inactive in terms of the Manager's process of engagement.

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% of the portfolio, are short duration (typically two to ten weeks) and are purely designed to provide an incremental degree of return over what otherwise would be a cash investment. 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. Since inception, the average cash holding has been XX%. The Manager typically has a material cash holding in order to provide it the flexibility to make acquisitions when opportunities present themselves. We do note, that the cash position in SNC is typically below that of SCAF (which has averaged 24% over its near ten-year track-record) due to the higher dividend yield on SNC.

In terms of portfolio positions, sizing is based on a risk reward scenario taking into consideration an assessment of risk factors focused on 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 factors which are undesirable.

Sizing and limits on portfolio construction are determined with regard for expected returns and an assessment of risks of permanent capital impairment and risk of failing to achieve the objectives underlying the return expectations. In short, sizing is an exercise of Manager conviction. While the Manager has portfolio guidelines, it is important investors understand that the Manager has a very significant degree of flexibility.

Given the activist investment style there will generally be no more than 10 core activist positions in the portfolio. The Manager may go up to 15% position sizing at the initial purchase price and holdings are permitted to run up to a maximum of 20% of the portfolio. The only other hard-and-fast rule is gross exposure can not exceed 150% (we note the Manager has, to date, never applied leverage to the investment strategy). Typical portfolio construction is: core longs 10-15 positions; average sizing around 5-7 % equity; guideline for 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 number 1-2 positions; average sizing around 1% equity. These guidelines may be exceeded at any time.

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 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. Such hedges are not designed to be perfect hedges, as most closed end fund portfolios do not provide sufficient underlying portfolio transparency.

PERFORMANCE ANALYTICS

SNC has a 4-year track-record in which to assess the pattern and degree of relative returns. We note, however, that SCAF has a materially longer 9-year track-record. The wholesale fund is based on the same strategy, although we do note that it will typically hold materially more cash (partly reflecting a lesser emphasis of dividend payments amongst the shareholder base). Furthermore, SNC is permitted to invest up to 15% of the portfolio in international equities, whereas the wholesale fund is not. Currently, SNC has approximately 4% of the portfolio in international equities.

Given these differences, we believe SCAF provides a guide to the potential returns profile and pattern of SNC but should not be viewed as a proxy. We have included the longer term performance of SCAF in this analysis on that basis.

The key performance points:

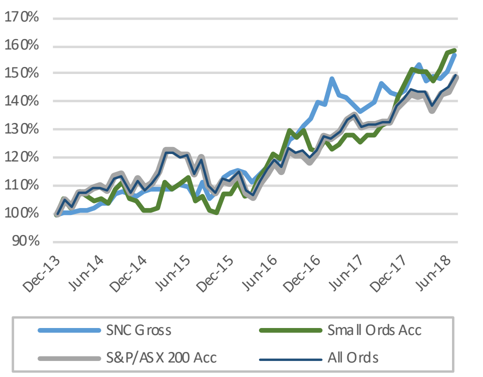
- The returns profile of this activist, event-driven and highly concentrated investment strategy has predictably manifested in an idiosyncratic, lumpy and lowly correlated (to the broader Australian equities market) returns profile. SNC and SCAF have outperformed over their respective investment terms on a gross basis, although we note on an after fees basis SNC has underperformed. The performance differential on a pre and post fees (and costs) basis is partly (not wholly) reflective of a relatively high fee structure as well as highlighting the importance of growing FUM to reduce costs per unit for shareholders.
- 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 under-performance. Highlighting the divergent nature of returns, we note that SCAF has recorded an average correlation of approximately 0.3 to both the All Ordinaries and the Small Ordinaries.
- The low correlation, divergent, event-driven nature of returns has the potential to deliver diversification benefits to investors within a broader portfolio of Australian equities.
- SNC has exhibited lower volatility than the broader equities market on a pre-tax NTA basis. The investment strategy has also exhibited superior performance in negative market environments, recording a lesser degree of average negative returns. This can be partly attributed to the portfolio's cash position, although we see this as part, not the whole, reason for the superior downside performance.
- In the past, two options issues and a share purchase plan have diluted returns to a degree, albeit not significantly. The Manager estimates such capital initiatives have shaved 50 - 75 basis points off NTA performance. As a general point, we believe such dilutive impacts should be stripped out in the assessment of manager skill and the ability to deliver alpha, or otherwise.

SNC NTA performance (as at 31 July 2018)

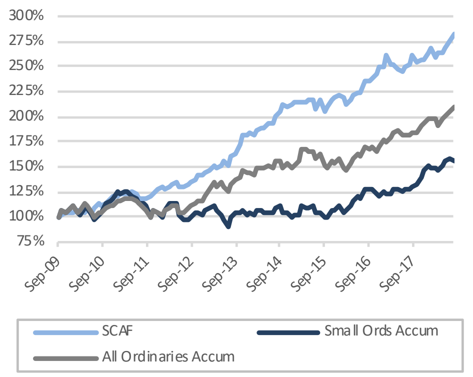
Performance	FYTD	1 yr	2 yr p.a.	3 yr p.a.	Since incept (16 Dec 2013) (% p.a.)	Volatility
SNC (Pre-tax NTA after fees)	1.0%	6.9%	6.6%	6.2%	5.3%	7.4%
SNC (Gross)	2.6%	14.9%	12.6%	13.1%	10.8%	8.7%
All Ordinaries Acc Index	1.2%	14.9%	10.7%	8.4%	9.4%	10.8%
outperformance	1.4%	0.0%	1.9%	4.7%	1.4%	N/a
Small Ordinaries Acc Index	-1.0%	22.6%	10.1%	14.0%	10.5%	12.0%
outperformance	3.6%	-7.7%	2.5%	-0.9%	0.3%	N/a
S&P/ASX200 Acc Index	1.4%	14.6%	10.9%	8.0%	9.3%	11.2%
outperformance	1.2%	0.3%	1.7%	5.1%	1.5%	N/a

SCAF as at 31 July 2018						
Gross Performance	**FYTD**	**1 yr**	**3 yr p.a.**	**5 yr p.a.**	**Since inception (p.a.)**	**Volatility**
SCAF (after fees)	2.1%	11.8%	9.3%	11.9%	12.3%	7.7%
S&P/ASX 200 Acc Index	1.4%	14.6%	8.0%	9.2%	8.6%	11.7%
Outperformance	0.7%	-2.8%	1.3%	2.8%	3.7%	N/a
Small Ordinaries Acc Index	-1.0%	22.6%	14.0%	9.3%	5.1%	14.5%
Outperformance	3.1%	-10.7%	-4.7%	2.7%	7.2%	N/a

SNC Performance (Gross Returns, as at 31 July 2018)



SCAF Performance (Net Returns, as at 31 July 2018)



DIVIDEND

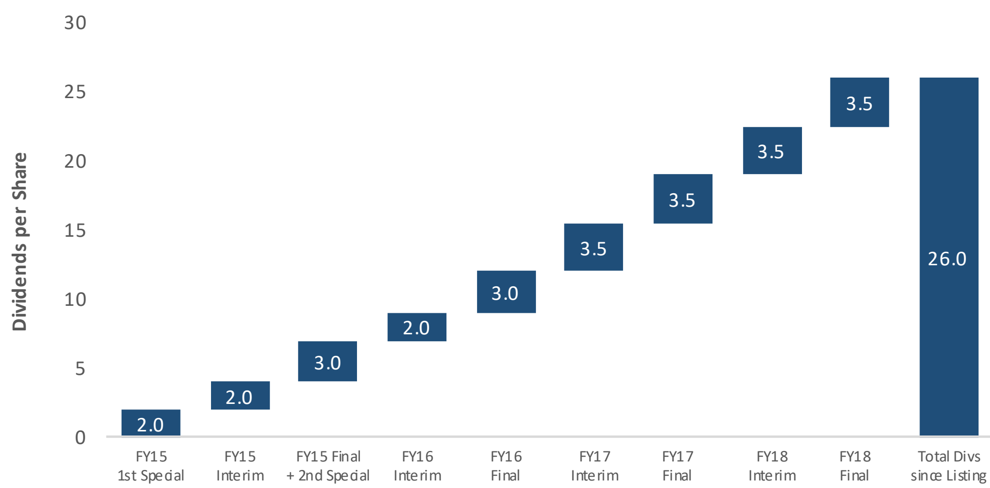
SNC has over its 4-year track-record paid a stable and consistently growing fully franked dividend. The Directors remain committed to continue to do so over the foreseeable future. This is partly in response to the Company's shareholder base which have always generally expressed a very strong preference for a continuation of a growing stream of fully franked dividends. While the dividend policy restricts organic FUM growth for the Manager (which may benefit shareholders by proportionally reducing fixed costs) a change in policy may well risk a higher degree of discount to NTA risk should existing shareholders become somewhat disaffected.

To facilitate the stability of dividend payments, the Company has invariably maintained a profit reserve buffer and retained franking credits of an amount that at least comfortably covers the next interim dividend amount.

The chart below displays the historic growth of SNC's dividend payments. SNC shares offer a relatively high dividend yield of 7.3% (10.0% grossed up for imputation credits). Consistent with communicated intentions, the Directors declared a final FY18 dividend of 3.5cps. The Directors are conscious of the need to pay fully franked dividends, and subject to conditions at the time, and availability of franking and profits, expects to pay a similar dividend for the 1HFY19 period. We note that SNC has profit reserves of 6.6 cps as at 31 July 2018 which, at this early stage of the FY19 period, is almost sufficent to cover the next two dividend payments (assuming a 7cps FY19 dividend).

As at 30 June 2018, SNC retains franking credits of 0.73 cps after the payment of the recently declared final dividend of 3.5 cps, and which supports the payment of a fully franked dividend of 1.94 cps. However, this figure does not account for any tax that will be paid nor franked dividends that will be received subsequently. Since 30 June, we note the Manager has disposed of Mineral Deposits, which was large part of the portfolio. There is an expectation that this should give rise to tax payments, and hence additional franking credits.

SNC Dividend Payments



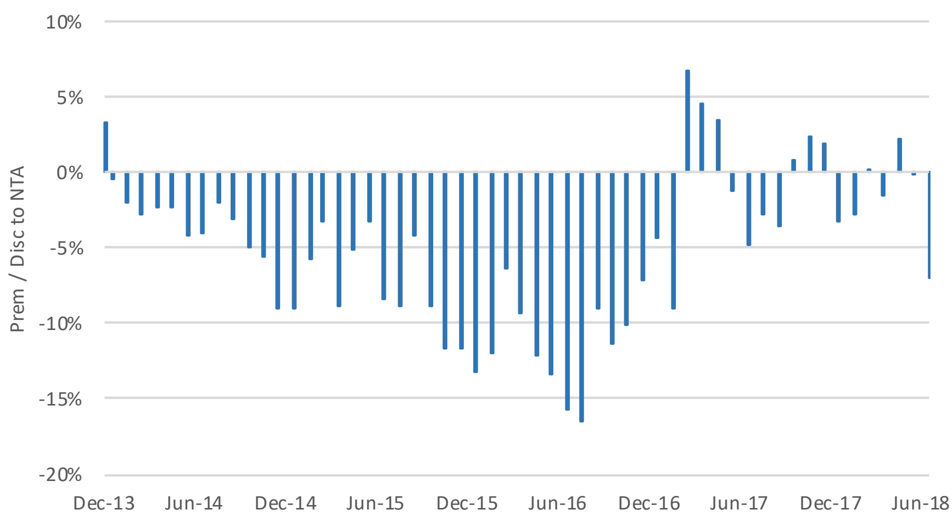
SHARE PRICE TO NTA PERFORMANCE

SNC has largely traded at a discount to NTA over its three year track-record, although we note that the situation has improved over the last 12-month period which we partly attribute to the material increase in dividend implemented in the FY17 period.

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 must likely reflects SNC's relatively low market cap / 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 accepting of 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. While on an NTA basis, SNC has been a relatively low investment, on a share price basis volatility is materially higher at 13% since inception.

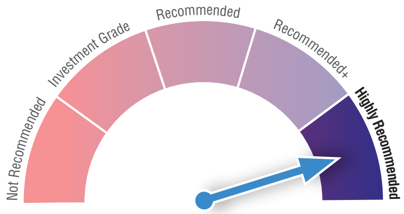
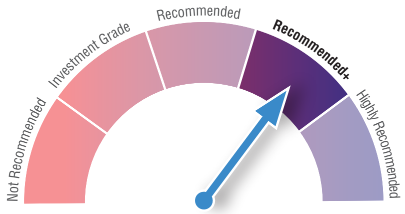
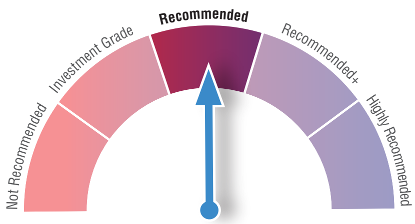
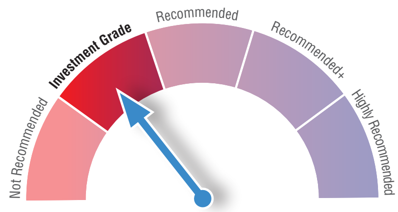
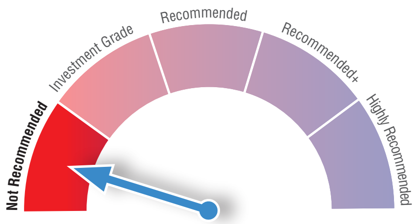
Premium / Discount to NTA



APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system

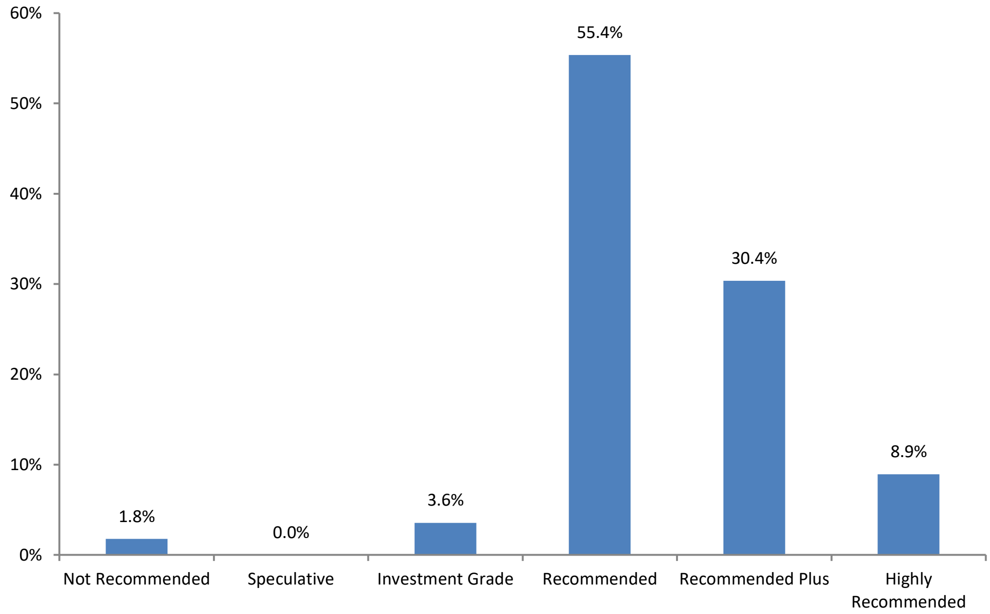
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction;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