

SANDON CAPITAL



Sandon Capital Investments Limited

Initial Public Offering

unlocking value through shareholder activism

November 2013

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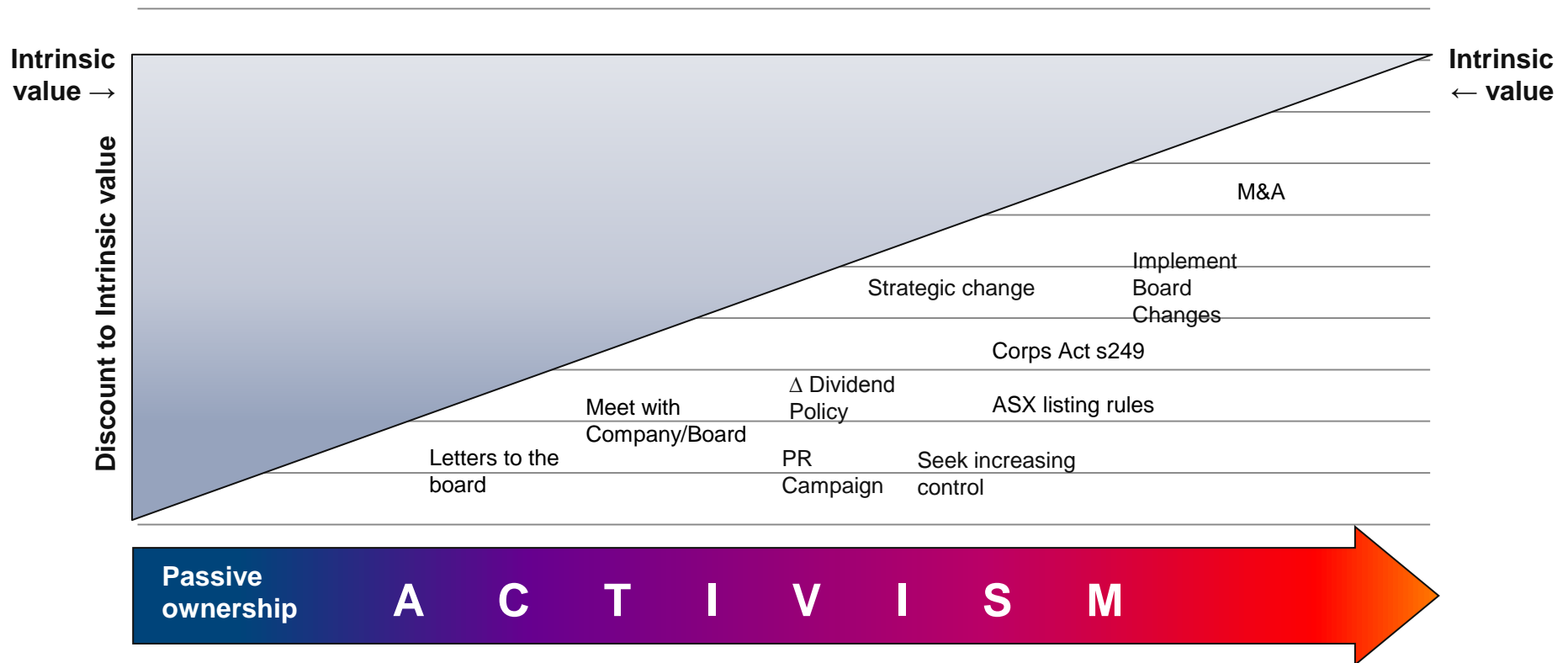
Agenda

- Introduction to Activist investing
- Introduction to Sandon Capital
- Sandon Capital Investments Limited (SNC):
 - Offer
 - Timetable
 - Investment strategy
- Sandon Capital's Investment Record
- Appendices

Introduction to activist investing

- Activist investing has a long history
- Notable activist investors include:
 - Warren Buffett, Carl Icahn, Sir Ron Brierley
- We see activism as:
 - A logical extension of value investing – it's about doing, not hoping
 - Seeking to reduce uncertainty by actively working towards an outcome
 - Employing the rights available to all shareholders
 - Reminding us that shareholders can and should be the ultimate arbiters of a company's direction
- The goals are straightforward:
 - to buy \$1.00 of value at a discounted price and
 - unlock and extract that discount

Activism – the activist management tool kit



Introduction to Sandon Capital

- Sandon Capital has been behind numerous successful activist opportunities
 - Both as investors and as advisers
- Our work includes:
 - RHG Limited
 - Alesco Corporation Limited
 - Australian Infrastructure Fund Limited
 - Signature Capital Investments Limited
- Sandon Capital is investment manager of:
 - Sandon Capital Activist Fund, established 2009
 - Sandon Capital Activist Institutional Fund, established 2013

Investment Strategy

- SNC will invest in listed securities that exhibit value characteristics and whose prices may benefit from “activist” engagement.
- Sandon Capital, SNC’s Manager, will apply its activist investment techniques to manage the Company’s assets in a similar manner to its other mandates (SCAF & SCAIF).
- Sandon Capital’s investment strategy is benchmark agnostic.
- We seek out opportunities where we can stack the odds in our favour.
- We favour investments where the possible outcomes include heads we win, tails we win...
 - We invest when we consider there are a number of factors that are likely to work in favour of a successful outcome.

Offer highlights

<i>Company</i>	Sandon Capital Investments Limited (ACN 107 772 467)
<i>Proposed ASX codes</i>	Shares: SNC Options: SNCO
<i>Investment Manager:</i>	Sandon Capital Pty Ltd
<i>Investment Strategy:</i>	Absolute return activist value
<i>Benchmark:</i>	Cash (1 month BBSW)
<i>Management Fees:</i>	Management fee 1.25% (plus GST) of net asset value plus performance fee of 20% (plus GST) of any outperformance above benchmark, subject to a high-water mark.
<i>Yield and Investment Objective:</i>	Aim to pay a minimum 6.0 cents per share fully franked per annum, grow and protect capital
<i>Board:</i>	Gabriel Radzyminski – Chairman Matthew Kidman Paul Jensen
<i>Service fees:</i>	1.50% plus GST (refer to prospectus for details of service fees)

Key Offer Statistics

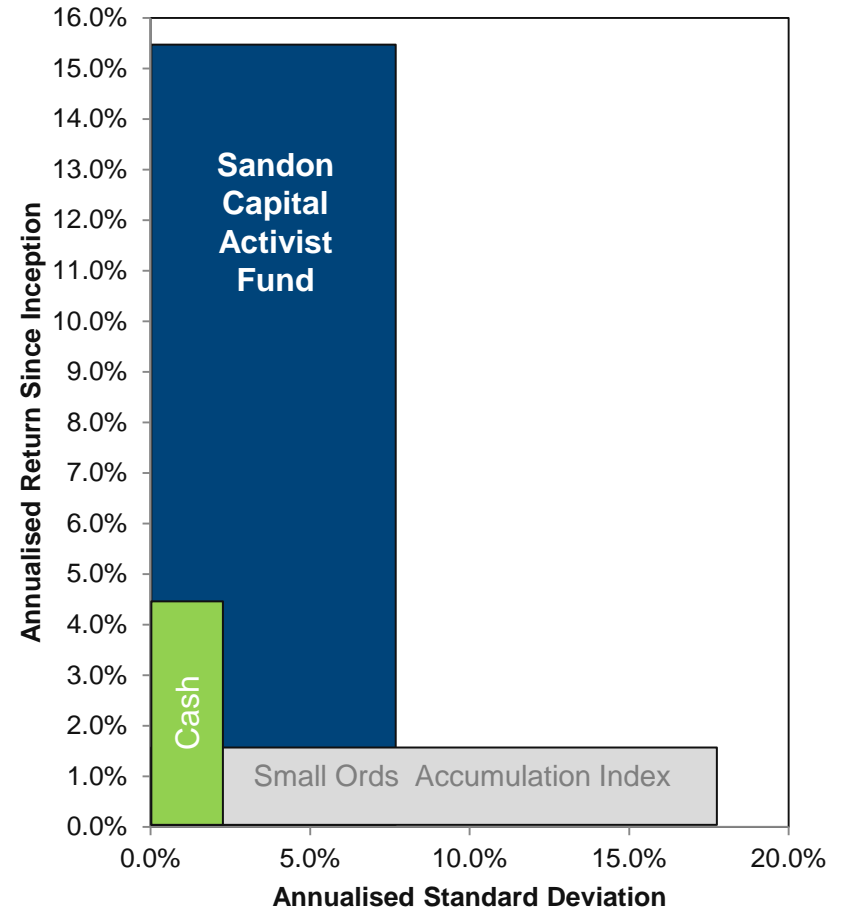
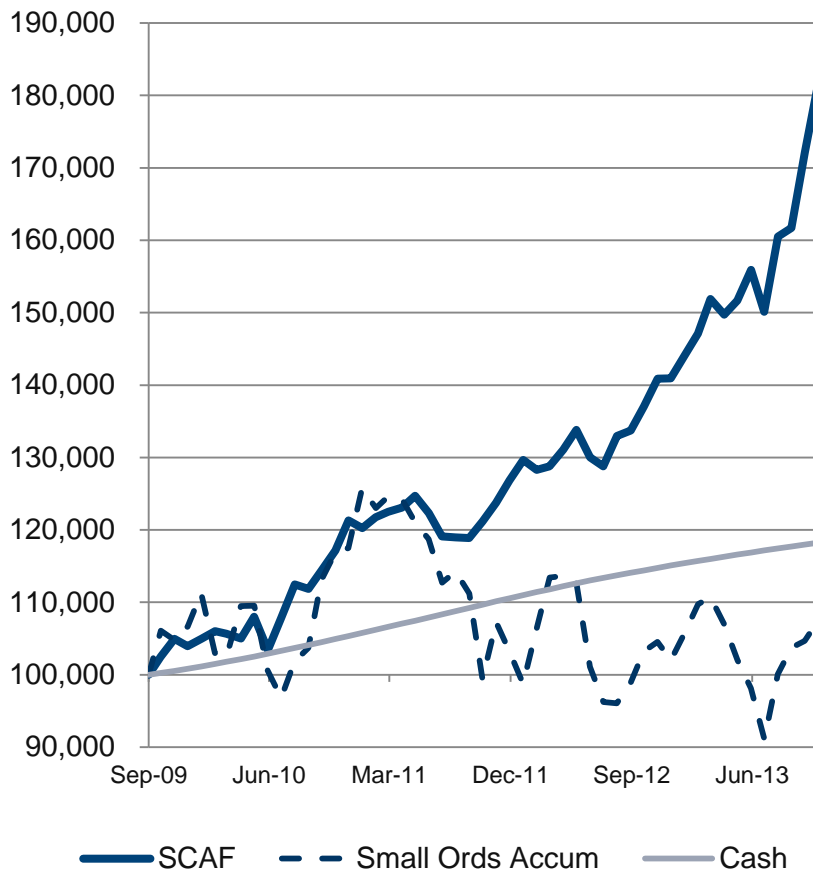
<i>Offer Amount</i>	\$100,000,000 with a minimum of \$16,000,000 and a maximum of \$125,000,000
<i>Application Amount</i>	A\$1.00 per share
<i>Option</i>	1 Free Option for Every 1 share subscribed
	Exercise Price: \$1.00
	Expiry Date: 24 July 2015
<i>ASX code</i>	SNC (Shares); SNCO (Options)
<i>Pro forma NAV per Share (Minimum Subscription)</i>	\$0.967
<i>Pro forma NAV per Share (Maximum Subscription)</i>	\$0.984
<i>Lead Manager</i>	Taylor Collison
<i>Offer Jurisdictions</i>	Australia and New Zealand -

Timetable

Lodgement of prospectus with ASIC:	11 November 2013
Expiry of exposure period:	18 November 2013
Offer opens:	19 November 2013
Broker firm offer expected to close:	29 November 2013
Offer expected to close:	6 December 2013
Final allotment of Shares and Options:	16 December 2013
Expected Date of Despatch of holding statements:	17 December 2013
Trading of Shares and Options expected to commence on ASX:	27 December 2013
Option Expiry Date:	24 July 2015

The above dates are indicative only and may vary. The Company reserves the right to amend this indicative timetable, including by closing the Offer early or extending the Closing Date, subject to the requirements of the Listing Rules and the Corporations Act.

Performance to 31 October 2013



Source: Sandon Capital, Bloomberg
 Note: SCAF returns are net of all fees and expenses.
 Start date of fund is 4 Sept 2009

Disclaimer

These graphs demonstrate the actual performance of SCAF (not the Company). It is not a forecast or predication of the likely performance of the Company. Future performance of the Company is not related to the past performance of SCAF and is not guaranteed.

Performance summary to 31 October 2013

		Small Ords	
	SCAF	Accumulation	Cash
Return since inception	82.0%	7.5%	18.2%
Annualised Return since inception (p.a.)	15.5%	1.8%	4.1%
12 month return	29.2%	2.8%	3.0%
Annualised standard deviation of monthly returns	8.2%	17.0%	2.5%
Correlation	0.36		

Source: Sandon Capital, Bloomberg

Note: SCAF returns are net of all fees and expenses.

Start date of fund is 4 Sept 2009

Appendices

Appendix A: About Sandon Capital Pty Ltd

AFSL 331 663 ABN 98 130 853 691

- Established by Gabriel Radzynski in 2008
- Sandon Capital is audited by BDO, legal advisers include Watson Mangioni and Corrs Chambers Westgarth
- Focus on activist investment management & activist advice mandates
- Gabriel has broad corporate experience including as a director of a number of ASX-listed companies: RHG Limited, Mercantile Investment Company Limited, Murchison Metals Limited and Armidale Investment Corporation Limited
- Investment team:
 - Gabriel Radzynski – MD & Portfolio Manager
 - Pratham Ravi – Analyst
 - Paul Dortkamp – Independent investment committee member

Appendix B: - Sandon Capital Investments Ltd Board

The Board has worked together on activist engagements

➤ These include RHG Limited, Signature Capital Investments Limited, Murchison Metals Limited and others

➤ Paul Jensen

- Paul has over 25 years of international experience in the funds management and institutional banking sectors.
- Other directorships include WAM Capital Limited, RHG Limited, Murchison Metals Limited and Galilee Energy Limited.

➤ Matthew Kidman

- Matthew was a portfolio manager at Wilson Asset Management for 13 years between 1998 and 2011. Prior to that, he was the Business Editor of Sydney Morning Herald with responsibility for company coverage.
- Other directorships include Watermark Market Neutral Fund Limited, WAM Capital Limited, WAM Research Limited, WAM Active Limited and Centrepont Alliance Limited.

Appendix C: Portfolio characteristics

➤ Portfolio characteristics include:

- Capital preservation, whilst seeking capital appreciation, is a key objective.
- Seeking asymmetrical outcomes.
- Combination of securities with activist potential (at varying stages) as well as other event driven positions, such as merger arbitrage and franking credit strategies.
- Focus on securities with high levels of cash or tangible asset backing.
- Concentrated portfolios, with no regard for market benchmarks.
- High levels of cash (SCAF average ~29% since inception, as high as 70%).

Appendix D – Case Studies

Case Study: Warrnambool Cheese & Butter Factory Holdings Ltd (WCB)

Background:

- WCB is the subject of an unsolicited takeover offer from Bega Cheese Limited (BGA)
- Offer is \$2.00 cash plus 1.2 BGA shares per WCB share (indicative value \$6.08 per WCB share)
- WCB owned in part by BGA (18.1%) and Murray-Goulburn (16.3%)
- WCB is a core holding for SCAF

Opportunity Snapshot:

- WCB has significant franking credits (see analysis), which we believe should figure in any transaction
- BGA has \$3.9m in franking account
- Consolidation play is under way

Current status:

- WCB has recommended Saputo offer of \$8.00 per share
- Murray Goulburn has increased its bid to \$9.00 per share
- Kirin conducted a raid, securing 9.9% of WCB at \$9.25 per share

All figures in millions except per share data

WCB Shares on issue	55.1
Current market capitalisation	\$323

As at 30 June 2013

Cash	\$3.8
Retained Earnings	\$82.7
Estimated Franking Account	\$29.8
Allows for fully franked dividend of up to:	\$69.6
per share	\$1.26
imputation credit per share	\$0.54

Sandon engagement strategy:

- We had bought WCB in Nov 2010 after it had spurned indicated offer from Saputo at \$4.50 per share, and were patiently waiting for opportunity to engage
- BGA offer triggers a letter from Sandon about the need for a special dividend in any offer.

Activist Investing – RHG Ltd

Financial snapshot:

- RHG highly profitable, accumulating cash. ~\$300m market capitalisation
- Historically traded at significant discount to NTA

Operating snapshot:

- At time of engagement, ~\$3.8bn run-off book of mortgages, from which it earns fees and spread
- Low-overhead business, costs scalable (to a point)

Governance snapshot

- Board had alienated some investors through its attitude towards shareholders

Opportunity snapshot

- Buy-back combined with delisting proposal angers investors
- A number of large investors enquire about engagement opportunities – 2 shareholders retain Sandon Capital to devise and execute counter-strategy

- Board has little support within investor base
- The buy-back proposal significantly undervalues shares (88 cents versus 116 cents NTA and IE valuation of 96-131cps)
- Investment thesis: RHG has capability to pay fully franked dividends over time

Tactical overview:

- Timetable is tight, but allows free option over buy-back
- Vote on buyback is a shot across the bow, sends message to Board AND shareholders

Outcome:

- Buy-back voted down – 86% of votes cast against
- Board declared 79 cent fully franked dividend
- Since then, a total \$1.215 per share (~\$375 million) have been paid in fully franked dividends (more than \$160 million in imputation credits),
- RHG is presently the subject of a scheme of arrangement proposal at 50.1 cents per share.

Contact details

Sandon Capital Investments Limited:

Gabriel Radzyminski

gabriel@sandoncapital.com.au

T: 02 8014 1188

M: 0408 936 357

Lead Manager – Taylor Collison

Hamish Nairn

hnairn@taylorcollison.com.au

T: 08 8217 3908