SANDON CAPITAL

Sandon Capital Master Fund

May 2022 Monthly Report

Performance Results (all figures are in AUD unless otherwise stated)

for the Sandon Capital Master Fund calculated net of Feeder Fund "Z" Class share fees, assuming reinvestment and using NAV. Indices are before fees. Feeder Fund investors should refer to their feeder fund statement for their own specific unit class returns

	1 month	1 year	3 yrs (p.a.)	5 yrs (p.a.)	Annualised since Fund inception	Annualised volatility since Fund inception	Total Return since Fund inception
SCMF	-7.2%	-3.5%	-	-	13.8%	19.7%	41.0%

For long term return from the investment strategy, please refer to return from Sandon Capital Activist Fund.

Net Monthly Returns (reported on the same basis as above)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2019										2.6%	-1.3%	0.1%	**1.3%**
2020	1.0%	-6.9%	-17.8%	8.4%	5.9%	1.7%	2.2%	11.3%	-0.4%	2.4%	9.0%	2.3%	**16.9%**
2021	1.2%	5.8%	8.3%	3.6%	2.7%	5.9%	3.7%	6.0%	-1.6%	3.3%	-2.0%	-4.9%	**35.9%**
2022	-3.6%	-3.2%	3.6%	-2.3%	-7.2%								**-12.4%**

Portfolio Exposures

Long Exposure	107%	Long Positions	24
Short Exposure	1%	Short Positions	1
Cash	0%	Australia	107%
Net Exposure	106%	International	1%
		Currency Exposure	107% AUD/ 1% USD

Fund Details

Structure	Cayman Islands Master Fund	Share Classes	A	B	C (founders)	Z
Auditor	EY	Min Investment	USD1M	USD1M	USD1M	AUD1M
Prime Broker	BNP Paribas, London Branch	Management Fees	1.5%	1.25%	1.0%	1.5%
Fund Administrator	BNP Fund Services	Performance Fees	15.0%	12.5%	10.0%	15.0%
Investment Manager	Sandon Capital Pty Ltd	Lock up (months)	No	36	12	No
Website	www.sandoncapital.com.au	Redemption Fee	No	3%	3%	No
Fund inception	1 October 2019	Highwater Mark				
		Applications / Redemptions	Monthly/monthly – 90 days' notice			

Fund Commentary

The Fund return for May 2022 was -7.2%. Net exposure was approximately 106%.

The largest detractors for the month were Coventry Group Ltd (**CYG**) (-1.8%), A2B Australia Ltd (**A2B**) (-1.7%), BCI Minerals Ltd (**BCI**) (-1.0%) and COG Financial Services Ltd (**COG**) (-0.9%). Any gains were so small as to not warrant a mention.

Whilst never pleasant to report results like these, there is an aspect to this far more frustrating: there were no negative updates from our companies. Sellers are likely doing so in anticipation of lower prices. We suspect they may come to regret their sales in the fullness of time. The price declines have been widespread across small and mid-cap companies.

We have spent the past two months speaking with the management teams of our major holdings. We've asked similar questions to each of them: what are your experiences with input costs and labour costs (and availability)?; and, have you been able to pass on increased costs to your customers (and do you expect to continue to do so)?

Unsurprisingly, all have faced increased costs for raw materials and labour. Labour shortages have also been mentioned. What most have also talked about is how they are seeking to mitigate these cost increases. For some, they are simply passing on the cost increases to their customers. One CFO noted that most customers have been accepting of the price increases as there was a broad understanding of the situation. Others are seeking to mitigate cost pressures by ensuring that quotes remain valid for ever-shorter times. This helps reduce the risk of a project being priced today, only to find that raw materials are more expensive when the quote is accepted. Increasing skilled and unskilled migration will be the only way to ameliorate the skills shortage and reduce pressure to significantly raise wages.

While investor sentiment may not yet have reached its nadir, we believe there is evidence of light at the end of the tunnel. On supply chains, there is increasing evidence that these issues are slowly resolving. For example, in recent days, major European car and truck makers have said micro-chip shortages are now over and they are now returning to producing at full capacity. We are also seeing evidence of shipping backlogs at major ports slowly clearing. Reports are also emerging that mineral sands producers are announcing 3Q22 contract prices increases for zircon of at least 7%. Energy prices will remain elevated while the Russia-Ukraine conflict persists.

We will shortly release a more detailed letter to investors in which we comment more widely on the portfolio.

In conclusion, rather than reinventing the wheel, we repeat some of our concluding comment from last month: *"Capital markets globally continue to exhibit heightened volatility as central bankers start wringing the excesses of the past decade* *from the system. High growth equities trading on nose bleed valuations have borne the brunt of the volatility. …. Many of the smaller cap names in our portfolio have been caught up in this volatility and have been unduly punished, often on thin volumes. The business fundamentals underpinning many of our investments continue to remain solid and valuations remain undemanding. We believe these ingredients position the portfolio to perform well over the medium to long term. In the short term, we continue to expect significant volatility in markets, however this also provides opportunity. We are taking advantage of this by steadily deploying capital into attractive investments."*

Contact Details

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