

Sandon Capital Activist Fund

August 2011 Monthly Report

Entry/Exit Prices: \$1.0832/\$1.0746

Fund Description

The objective of the Fund is to deliver returns to investors through a combination of capital growth and distributions. The Fund aims to achieve this objective by seeking to invest in opportunities that are considered by Sandon Capital to be trading below their intrinsic value and that offer the potential of being positively influenced by investors taking an active role in proposing changes in the areas of corporate governance, capital management, strategic and operational issues, management arrangements and other related activities. Neither returns nor capital are guaranteed.

Fund Details

Structure	Wholesale unit trust	Minimum Investment	\$250,000 (or as agreed with trustee)
Trustee	Fundhost Ltd	Trustee Fees	0.21%
Custodian	National Australia Bank	Management Fees	1.33%
Investment Manager	Sandon Capital Pty Ltd	Performance Fees	15.375% of returns above cash
Website	www.sandoncapital.com.au	Buy/Sell Spread	±0.40%
Inception	4 Sep 2009	Applications	Monthly
		Withdrawals	Quarterly

Fund Performance (calculated net of all fees, assuming reinvestment of distributions and using unit mid-price. YTD figure is compound)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009									2.5%	2.4%	-0.9%	1.0%	5.0%
2010	1.0%	-0.3%	-0.7%	2.9%	-4.2%	4.2%	4.4%	-0.6%	2.3%	2.4%	3.5%	-0.9%	14.5%
2011	1.3%	0.6%	0.5%	1.3%	-1.9%	-2.7%	-0.1%	-0.1%					-1.1%

Fund Commentary

The Fund returned -0.1% in August. Global and local indices were buffeted across the board. Locally, the S&P/ASX200 and ASX Smallcap Accumulation Indices were down 1.9% and 2.7% respectively. These closing results belie what transpired during the month, where both indices closed down as far as 9.9% and 10.6% respectively.

Despite the Fund's cash level peaking at ~63% cash in early August, we picked out a few opportunities arising from the turmoil. Notable was the purchase of Coal & Allied Industries (CNA) after the announcement of an indicative non-binding offer from major shareholders Rio Tinto Limited and Mitsubishi to acquire the 14.6% of CNA they didn't own. The indicative price was \$122 per share. We formed a view that a transaction should include some form of distribution of franking credits to accepting shareholders. We wrote the CNA independent directors (and advisers) a letter outlining our arguments (other investors also urged improvement in both terms and price). We'll post the letter on our website soon. Pay-off came in the form of a scheme of arrangement with a higher offer (\$125) and \$8 fully franked dividend (which reduces the takeover price). Shareholders are yet to vote, but our CNA holding is already up 7%, despite still trading below the \$125 scheme price.

We also made a small opportunistic purchase (and sale), Valad Property Group (VPG), which was the subject of a shareholder-approved scheme of arrangement with Blackstone Group. We bought at \$1.78 as the market bottomed, only to be taken out before month's end at \$1.80. Given there were no market-related out clauses for Blackstone, a 1% return, without risk, for 13 days was, in our view, a very good deployment for some of the cash held.

We remain cautious about the global macro outlook. Further government or central bank responses in the US and Europe might yet drive an equity market rebound, but will not, in our view, address core issues. These, and others, are significant macro factors at play globally, the consequences of which are difficult to predict or quantify.

Notwithstanding these comments, opportunities for our strategy remain. We are planning some "engagement" activities, which should emerge during the next month. Our high cash weighting provides the opportunity to cushion the portfolio against wild market swings, as well as "dry powder" for emerging opportunities.

We are focused on opportunities that have high levels of tangible assets, marketable securities or cash, as we believe these offer the best risk-adjusted returns in the current environment.

Portfolio Exposures

Long Exposure	49%	Long Positions	8
Cash	51%		