

## Sandon Capital Activist Fund

December 2009 Monthly Report

Entry/Exit Prices: \$1.0540/\$1.0456

### 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	NAB Custodian	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)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009									2.5%	2.4%	-0.9%	1.0%	5.0%

### Fund Commentary

December was a month of contrasts for equity markets, with fear dominating the early weeks and exuberance in the final weeks.

The significant contributor to the portfolio (~ 2.4% of Fund performance) was Challenger Kenedix Japan Trust, which was the subject of a takeover proposal from Challenger Life. The offer, effectively at \$1.03, represents a significant premium to our average purchase price of \$0.64, though we feel the offer is a low-ball one. Our view is the units are worth significantly more (at least \$1.20), though we fear most other investors will be glad to accept Challenger Life's offer.

The significant detractor to the portfolio was the index hedge (~ -1.1%), where we hedged part (approximately 58%) of our equity exposure through S&P/ASX200 index put options. This position was very profitable early in the month, but began losing as the index edged its way higher. The other detractor (~ -0.9%) was a small company where we are looking to exert some influence along with other shareholders, with a view to change. Until our plans come to fruition, we expect this position will be a drag on the portfolio.

The portfolio holds 14 positions (including the index puts), two of which we are actively engaged with.

We remain 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	76%	Long Positions	13
Cash	24%		

Fundhost Limited (ABN 69 092 517 087) (AFSL 233045) ("Fundhost") as trustee of, and issuer of units in, the Sandon Capital Activist Fund ("Fund"). Sandon Capital Pty Limited (ABN 98 130 853 691) (AFSL 331 663) ("Sandon Capital") is the Investment Manager of the Fund.

Fund performance is after fees and assumes distributions are reinvested. Past performance is not a reliable guide to future performance. This information has been prepared without taking into account your investment objectives, financial situation, or needs. Before making an investment decision you should consider the appropriateness of the information having regard to these matters. Before you invest it is important that you read and understand the terms set out in the Sandon Capital Activist Fund Information Memorandum ("IM") dated 18 December 2009. In particular, it is important that you understand the risks associated with an investment in the Fund set out on page 9 of the IM.

Information provided by the Investment Manager are views of the Investment Manager only and can be subject to change. While information in this report is given in good faith and is believed to be accurate, Fundhost and Sandon Capital give no warranty as to the reliability or accuracy of the information, nor accept any responsibility for any errors or omissions of third parties.