

## Sandon Capital Activist Fund

January 2010 Monthly Report

Entry/Exit Prices: \$1.0644/\$1.0560

### 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            | <a href="http://www.sandoncapital.com.au">www.sandoncapital.com.au</a> | 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% |
| 2010 | 1.0% |     |     |     |     |     |     |     |      |      |       |      | 1.0% |

### Fund Commentary

In spite of poor market performance, the fund delivered a positive result. In January, markets had a promising start, but this optimism evaporated as concerns re-emerged about a number of key global issues; including China's outlook, the potential for Greece to default on its sovereign debt and questions of the true state of the US economic recovery. By month's end, equity markets delivered the worst monthly result since November 2008. With the half-year reporting season underway and an array of global macroeconomic pressures, we expect continued volatility in the Australian equity market and therefore continue to maintain a partial hedge on the portfolio through S&P/ASX200 index put options and a significant portion of the portfolio in cash.

The significant contributor to the portfolio (~1.2% of Fund performance) was the index hedge. Another significant contribution came from Challenger Kenedix Japan Trust (~0.8% of Fund performance) adding to last month's strong result. Sandon Capital and a handful of shareholders worked to obtain an increase in the offer from Challenger Life by 5% to \$1.05. Our total return on this investment has been 69%. Part of our effort was in the form of the letter we sent CKT and select shareholders which you can read on our website ([www.sandoncapital.com.au/pdfs/CKT\\_letter.pdf](http://www.sandoncapital.com.au/pdfs/CKT_letter.pdf)).

The significant detractors to the portfolio were two listed investment company holdings (~ -0.5% and ~-0.2% of Fund performance), with nothing particular of note in those moves.

The portfolio holds 13 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 | 63% | Long Positions | 12 |
| Cash          | 37% |                |    |

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.