

Sandon Capital Activist Fund

Jan 2011 Monthly Report

Entry/Exit Prices: \$1.1864/\$1.1769

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. 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%												1.3%

Fund Commentary

The Fund delivered a 1.3% return this month. Positive contributions included Warrnambool Cheese & Butter Factory (WCB) (~1%) and ING Entertainment Fund (~0.5%). Detractors included Keybridge Capital Ltd (~-0.6%) and Gunns Limited (~-0.5%).

WCB rose almost 25% during the month, following on from a rise of almost 7% in the previous month. WCB announced that it expected to report a half year profit after tax in the range of \$35-\$37 million, compared to \$8.9 million in the previous corresponding period. The Company cited higher dairy commodity prices and improved margins. Whilst a great result, the full year will not be simply twice the half year, as the business is affected by seasonal factors, currency movements and, fundamentally, milk price fluctuations. We see WCB as an interesting proposition: thematically, food security is a big positive, though domestically, the dairy farming and processing industry faces some challenges (for example, the recent move by Coles and Woolworths to cut the price of their house-brand milk); WCB must carefully balance the interests of shareholders (and returns) with those of producers; WCB has previously rejected takeover overtures from Murray Goulburn Co-Operative (which raised ACCC hurdles) and Saputo Inc. of Canada and placed just under 15% of its issued shares to Bega Cheese (at a significant discount to the takeover price offered by Murray Goulburn; and WCB has a 15% shareholder cap due to expire in May this year. 2011 should be "interesting" for WCB.

The Fund held ~39% of its assets in cash and was unhedged. We remain cautious about the global macro outlook. There are significant macro factors at play globally, the consequences of which are difficult to predict or quantify.

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	62%	Long Positions	12
Cash	38%		

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. To the extent permitted by law, neither Fundhost nor Sandon Capital, including their employees, consultants, advisors, officers or authorised representatives are liable for any loss or damage arising as a result of reliance placed on the contents of this report.