

Sandon Capital Activist Fund

May 2011 Monthly Report

Entry/Exit Prices: \$1.1920/\$1.1825

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%								1.7%

Fund Commentary

The Fund delivered a -1.9% return this month. The top contributors to this month's return were Warrnambool Cheese & Buttery Factory Limited (~0.5%) and GPG Plc (~0.5%). The main detractor was Gunns Ltd (~-3.0%).

Gunns Ltd (GNS) continued to fall during the month. We indicated in last month's report that we were reviewing our thesis on GNS. As we reviewed the situation, it became clear that an increasing number of GNS shares were being sold short (we suspect sustained currency appreciation was the likely impetus). Despite adverse currency moves, we remained confident that the Company would not fall short of its guidance. By month end as the share price bottomed, our confidence in our investment thesis was somewhat shaken. As a post-script, on 1 June, the company re-affirmed its end of year guidance – a short-covering rally ensued and the shares rose 27% (but too late for our May result!). We took that opportunity to sell the ordinary shares while we continued to consider the position.

We sold out of RHG at ~\$1.27, having bought in again at an average cost of \$1.07. We also began buying shares in a small industrial company, which is selling the assets and should end up with ~\$1.75 per share of cash. It will also have ~\$0.50 per share of franking credits, which would allow it to pay a fully franked dividend of ~\$1.10 per share). The Company intends to seek acquisitions, but we believe there may be a number of shareholders (and potential shareholders) more keen on seeing a means of distributing these franking credits. Recent experience in both RHG Ltd and BHP exemplify the benefits to both shareholders and companies when franking credits are distributed.

The Fund held ~23% of its assets in cash and was unhedged against market movements. 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	77%	Long Positions	15
Cash	23%		

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.