

Sandon Capital Activist Fund

Oct 2010 Monthly Report

Entry/Exit Prices: \$1.1414/\$1.1323

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%			11.6%

Fund Commentary

The Fund increased 2.4% this month. Significant contributions came from Leyshon Resources (~1.1%), LInQ Resources Fund (LRF) (~0.8%) and Gunns Ltd (~0.7%) and the significant detractor was Keybridge Capital (~-0.4%).

We tendered all of the Fund's LRF units into an off-market withdrawal offer, although the withdrawal price (and proportion of our units accepted), which will be set at a smaller discount to NTA than the prevailing market price, will not be known for a little while. In the meantime, strong performances in the resource sector have buoyed the LRF NTA.

Gunns continued to perform strongly, rising by as much as 36% intra-month, before falling from these highs in the last days of the month. On the last day, it issued a profit downgrade (largely driven by the appreciating Australian dollar – no surprises there). We remain comfortable with our Gunns investment thesis, which (simply put) is that as the Company rebuilds its social compact with its community (and focuses its portfolio), its inherent value (the range of which we estimate to be still well above current market prices) will be better reflected in its share price. We added to the ordinary share position (and maintained the GNSPA Preferred share position) post month-end.

The Fund held ~40% of its assets in cash, which has been a drag on performance. While an undiluted exposure to our stock picks might have been nice (with the benefit of hindsight), on balance, 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	60%	Long Positions	12
Cash	40%		

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.