Sandhurst Future Leaders Fund

Sandhurst Trustees

As at 31 March 2017

Sharemarket commentary[#]

Global markets continued their upward run in the opening quarter of 2017 with the MSCI World Index posting a return of +6.5%. The US S&P 500 continued its record breaking run to end the quarter up +6.1%, the 6th consecutive quarterly gain while Europe's Stoxx50 and the Emerging Markets Indices surged +7.0% and +11.5% respectively.

Commodities had a lacklustre quarter, with the oil price slipping -8.4% as an increase in the US rig count as well as increasing US inventories outweigh the benefits of production cuts previously announced by OPEC. Iron ore finished the quarter slightly higher, though coming under pressure late in the quarter as the restocking cycle in China slowed.

Domestically, APRA released a new set of macro-prudential rules for mortgage lending in Australia in a bid to cool the overheated property market. With the RBA reluctant to raise interest rates from the current 1.5% level, it was left to APRA to attempt to reign in bank lending, specifically targeting interest only and investor lending.

The local sharemarket as measured by the ASX300 followed global bourses higher, gaining +3.3% in March, rounding out a quarterly performance of +4.7%. Similarly, the Fund's ex50 benchmark had a solid quarter up +3.6%, with the month of March alone contributing the bulk of the gains up +3.4%.

All sectors within the Fund's benchmark finished the quarter higher with the exceptions of IT which fell -5.8%. Consumer Staples gained +9.6% with the likes of A2 Milk, Blackmores and Bega Cheese benefiting from a relaxation by Chinese authorities on importing goods into China via the "gray channels", along with strong performances from Metcash and Coca-Cola. Despite the sell off in the Iron Ore price in March, the Materials sector enjoyed a strong quarter up +4.7%, with the likes of Fortescue and Bluescope Steel up +17% and +33% respectively as investors continue to support the highly volatile commodity plays. Within the sector, the Gold miners found support as the yellow metal rallied +8%. The Mining Contractors also enjoyed a strong quarter as investors continue to factor in the potential for commodity prices to remain at elevated levels, supporting ongoing activity levels for mining companies.

Given that approval for many of the new US President's proposed policies appear to be now facing many hurdles and delays and given the rerating that has occurred in sharemarkets around the world, including Australia's since November, IML continue to tread cautiously only selecting companies that look good from a value and quality aspect, as well as remaining on the lookout for companies that IML believe can grow their earnings in the next 3 to 5 years despite the continued fairly unpredictable environment.

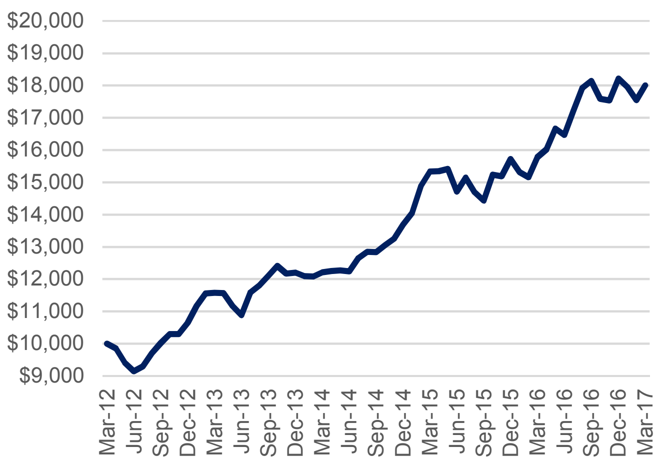
Fund information

Application	$1.0157
Withdrawal	$1.0106
Fund start date	**7 June 2002**
Fund size	$18.10 Million

Fund performance

Morningstar Rating™ - 5 year*		★★★
Morningstar Category Rank - 5 year*		9/17
Performance period	**Fund return[1]**	**Benchmark[2]**
1 month	2.59%	3.4%
3 months	-1.19%	3.6%
1 year	14.05%	17.9%
3 years p.a.	13.80%	10.5%
5 years p.a.	12.47%	7.5%

Growth of $10,000[1] over 5 years



Contact Sandhurst

For further information contact our Customer Service Centre on 1800 634 969 or visit our website www.sandhursttrustees.com.au/investments

Footnotes

[1] Fund return figures are calculated before tax and after fees and costs; using withdrawal prices and assumes distributions are reinvested. Growth graph is based on historic Fund performance over 5 years. Past performance is not an indication of future performance.

[2] The benchmark for the Fund is the S&P/ASX 300 Accumulation Index (excluding S&P/ASX 50, excluding property trusts).

Portfolio performance & summary#

Following a strong CY2016, the Fund had a disappointing quarter falling -1.19%.The portfolio was impacted by its virtual zero holding to the highly volatile Mining and Mining Service sectors which had a strong quarter on higher commodity prices. Whilst these sectors have been strong as commodity prices have rallied, IML remain happy to avoid these sectors given their low quality and unpredictability of the earnings of companies in these sectors.

Weakness over the quarter in stocks such as Fletcher Building, Myer, Event Hospitality and Tox Free also impacted the Fund's performance, however, IML continue to have a strong conviction in these companies as they continue to represent good value and whose medium term outlook remains sound. On a brighter note, the Fund benefited from good performances from stocks such as Fairfax, Steadfast, Pact and Mayne Pharma.

Fletcher Building (FBU) reported a strong underlying interim result with net earnings up 18% before significant items and a 5% increase in the interim dividend to 20c. All divisions, apart from the Construction division, recorded an improvement in underlying earnings. Subsequent to the result the company announced that two large building projects were over budget and that this division would incur a NZD110m loss in FY17 to cover these issues. With the share price falling 25% over the quarter and now trading on a price-earnings ratio below 12 times, IML believe this is an overreaction and have used this weakness to add to the Fund's position.

Mayne Pharma (MYX) had a good quarter after reporting a strong interim result driven by the 2016 generic portfolio acquisition from Teva as well as several new product launches. The acquisition gave MYX a more diverse portfolio of generic drugs as well as strong cashflow with the scale to invest more funds into R&D. MYX's outlook remains positive with 19 products currently awaiting FDA approval to be launched over the next 12-24months.

Event Hospitality (EVT) fell over the quarter following a weaker than expected first half result due to softer than expected cinema turnover through the Christmas period. Whilst disappointing, the result was still their second best interim result in Australia. IML used this weakness to top up the Fund's holding in what remains a quality company. With EVT's current property portfolio having a market value of circa $2bn (which approximates their current market capitalisation) and a strong balance sheet the current price presents as an attractive opportunity.

Tox Free (TOX) fell -8% over the quarter following a slightly softer than anticipated result with an increase in underlying interim profit of 7% to $11.7m. Over the last few years the company has faced an earnings headwind as construction related work in WA has tapered off. FY17 represents the last year of this headwind and with the company having successfully diversified into the growing liquids East Coast market and into healthcare market through the acquisition of Daniel's, the company is now well positioned to grow. Furthermore, the company is undertaking several strategic initiatives to increase productivity and reduce costs. Trading on a price-earnings ratio of 14 times FY17 earnings, IML believe the company is very reasonably priced, especially considering the hard to replicate nature of its assets.

While low interest rates continue to support the sharemarket, many stocks appear to be fairly fully valued particularly given the rally over the last quarter. IML continue to maintain a cautious approach and continue to look for good quality companies that IML believe represent reasonable value and will use any short term weakness to accumulate shares in such companies.

Portfolio holdings

Portfolio	% of Fund
Tox Free Solutions Limited	3.68%
Ansell Limited	3.22%
Pact Group Holdings Ltd	3.21%
Mayne Pharma Group Limited	3.21%
Spark Infrastructure Group	3.08%
Cybg PLC	2.91%
Duet Group	2.74%
GWA Group Limited	2.70%
Flight Centre Travel Group Limited	2.69%
Steadfast Group Limited	2.65%
Top Ten Stocks	30.09%
Other Stocks	57.78%
Cash	12.13%
Total	**100.00%**

Please note the portfolio information supplied above is based on the underlying managed investment scheme, in addition, the Fund may directly hold small amounts of cash.

Footnotes

* 'Morningstar Rating' is an assessment of a fund's past performance – based on both return and risk – which shows how similar investments compare with their competitors. A high rating alone is insufficient basis for an investment decision.

'Morningstar Category Rank' is the Fund's performance rank relative to all funds in the same Morningstar Category. Investments are placed into Morningstar Categories based on their compositions and portfolio statistics so that investors can make meaningful comparisons. Morningstar Category: Equity Australia Mid/Small Value.

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Important Information

#Sharemarket commentary and Portfolio performance & summary are provided by Investors Mutual Limited (IML). Economic and outlook forecasts are not guaranteed to occur. The information provided in this document has not been verified. Accordingly, no representation is made to the fairness and accuracy of the information, opinions and conclusions contained in this document.

The Sandhurst Future Leaders Fund (Fund) is issued by Sandhurst Trustees Limited (Sandhurst) ABN 16 004 030 737 AFSL 237906 a subsidiary of Bendigo and Adelaide Bank Limited (the Bank) ABN 11 068 049 178 AFSL 237879. Sandhurst and the Bank receive remuneration on the issue of the Fund or the service they provide, full details of which are contained in the Product Disclosure Statement (PDS). Investments in the Fund are not deposits with, guaranteed by, or liabilities of the Bank or any of its subsidiaries. Sandhurst has prepared this document based on information available to it. The information provided by IML has not been verified by Sandhurst. Accordingly, no representation is made to the fairness and accuracy of the information, opinions and conclusions contained in this document. This update is provided by Sandhurst and contains general advice only. Please consider your situation and read the PDS available at www.sandhursttrustees.com.au/pds, any Bendigo Bank branch or by phoning 1800 634 969 before making an investment decision.

This information is current as at 31 March 2017 and is subject to change.