

2.76% p.a.¹

Year ending 31 October 2017

Sandhurst Future Leaders Fund

Monthly fund update - October 2017

Investment approach

The Fund aims to deliver income and capital growth over the long term by providing exposure to a diversified portfolio of quality ASX listed shares outside the top 50 shares listed on the ASX where these assets are identified by Investors Mutual Limited (IML) as being undervalued.

Fund performance¹

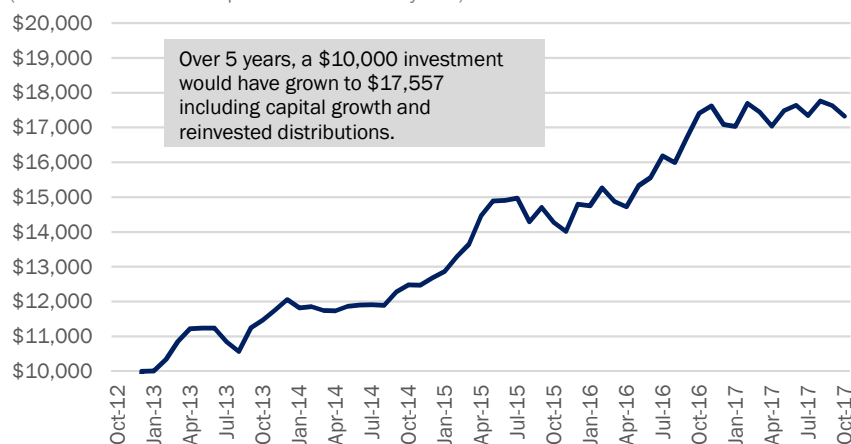
as at 31 October 2017

	Morningstar Rating™ 5 Year ³	Morningstar Category Rank 5 Year ³	1 month %	3 months %	1 year %	3 years %p.a.	5 years %p.a.
Sandhurst Future Leaders Fund	★★★	12/19	0.75	-0.43	2.76	11.46	11.92
Benchmark ²			6.10	8.40	18.20	13.50	11.10

An example of how your investment grows

Growth of \$10,000¹

(Based on historic Fund performance over 5 years)



Fund facts

Fund APIR code	STL0011AU
Fund start date	7 June 2002
Fund size	\$17.11 m
Minimum investment / minimum balance	\$2,000
Recommended investment timeframe	5 years +
Risk level	High

Unit price (ex distribution)

Application price	\$0.99549
Withdrawal price	\$0.99052

Distribution details (cents per unit)

31 December 2016	\$0.02310
30 June 2017	\$0.02482

Make the most of your investment

► The power of compounding

Compounding can be a powerful tool in wealth creation. Reinvesting distributions can be one of the easiest and cheapest ways to increase your holdings over time. You're compounding your investment's growth by continually adding more units which, in turn, will generate distributions of their own.

Why not reinvest your half yearly distributions?

► The benefits of making it regular

Making regular contributions to your investment can both grow your investment and smooth the effects of market highs and lows.

Why not add a Regular Savings Plan to your investment? Establish one from as little as \$50 per month.

You can also use BPAY® to add to your investment at any time with as little as \$100. See your statement for your BPAY reference number.

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Do you have any questions?

For further information contact us on 1800 634 969 or visit www.sandhursttrustees.com.au

- ▶ Global sharemarkets continued their rise in October led by the US which continues to reach new record highs.
- ▶ The Fund's ex50 index gained 6.1% as various speculative 'concept' stocks surged higher.

Global equity markets rose through October with the MSCI World Index posting a gain of 2.0%. The gains were broad based with all major bourses performing strongly. US markets hit new record highs with the broader S&P500 gaining 2.3%, whilst the Dow Jones Industrial Index moved through the 23,000 level and finishing up 4.3% for the month as US markets were encouraged by the prospect of President Trump's plan to reform US tax policy. Markets were similarly strong in both Europe and Japan, reacting favourably to an extension of their respective accommodative monetary policies. Europe's Stoxx50 Index gained 2.2% as markets cheered a dovish update from the European Central Bank while Japan's Nikkei surged 8.2% as Japanese Prime Minister Shinzo Abe scored a major victory in the national elections.

Domestically, Q3 inflation came in softer than expected at an annualised rate of 1.8%, falling short of the RBA's target for 2-3%. This was a further sign that stagnant wages growth continues to weigh on consumer activity. As a result, the AUD fell 2.3% to a 3-month low against the USD. In commodities, the iron ore price continued to weaken, falling 5.7% over the month below the \$60 level, extending September's 20% fall. The oil price jumped 7.7% as OPEC continues to make overtures on extending its production cuts.

The broader ASX300 index had a strong month returning up 4.0%, its best month since July 2016. The Fund's ex50 benchmark outperformed the broader market, to be up 6.1%, as it was propelled higher by investors bidding up a select basket of companies, regardless of their multiple. Thus, the consumer staples sector gained a staggering 14.1% over the month as companies exposed to the Chinese "daigou" distribution channel such as Bellamy's, Blackmores and A2 Milk posted returns in excess of 30% for the month, leaving these stocks trading on lofty respective price-earnings ratios of 35 times, 26 times and 38 times FY18 forecast earnings.

Technology stocks Wisetech and Aconex both rallied over 20% for the month on no news flow, while Afterpay surged 24% on a sales update. These three companies combined now have a market cap of \$5.8bn and yet only made a combined profit of \$47m in FY17 - an effective price-earnings ratio of 123 times. The small and mid-cap resources sector benefited from a jump in the price of base metals, with nickel gaining 18% over the month. Continued momentum in the Lithium sector saw Pilbara Mines and Galaxy Resources both gain over 25% for the month. These two companies now have a combined market cap of around \$3bn and yet neither recorded a profit in FY17.

Pact
Tox Free
Clydesdale Bank
Shopping Centres Australasia
Spark Infrastructure
Ansell
Z Energy
Southern Cross Media Group
Fletcher Building
Bank of Queensland

Portfolio performance & summary⁴

- ▶ IML remain disciplined on valuation, positioning the portfolio in quality stocks that are reasonably priced.

The Fund returned 0.75% for the month of October, well short of the benchmark's strong return of 6.1%. IML's aversion to the small and mid-cap resources sector continued to hurt the Fund's relative performance with the sector up significantly in the last three months. The 25% pull back in the iron ore price in the past 2 months highlights the volatility of resource pricing and reinforces IML's wariness towards the sector. The portfolio's industrial holdings in companies such as Pact Group, Fairfax, Melbourne IT, Ansell, Centuria and Events all had a solid month.

Outlook⁴

Global sharemarkets continue to move higher fuelled by data which points to a growing global economy while supported by interest rates that remain at record low levels. While this may be so, it remains a challenging domestic environment for many companies with an intensely competitive environment weighing on most companies. IML remain cautious on the resource sector given the continued high levels of supply apparent in most commodity markets and hype in the more niche commodities, such as lithium.

While investors locally having aggressively bid up a narrow basket of 'concept type' stocks, principally in the consumer staples and IT sectors, in search of growth boosting the benchmark's gain, IML remain prudent and continue to position the portfolio in solid industrial companies that meet IML's core criteria of generating recurring earnings, have solid balance sheets, and yet which, most importantly, trade at reasonable prices while retaining a reasonable weighting in cash awaiting better opportunities to deploy this cash.

Footnotes

1. Fund performance figures are calculated before tax and after fees and costs; using withdrawal prices and assumes distributions are reinvested. 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).
3. '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. © 2017 Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. Any general advice or 'class service' have been prepared by Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or Morningstar Research Ltd, subsidiaries of Morningstar, Inc, without reference to your objectives, financial situation or needs. Refer to our Financial Services Guide (FSG) for more information at www.morningstar.com.au/s/fsg.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement (Australian products) or Investment Statement (New Zealand products) before making any decision to invest. Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Past performance does not necessarily indicate a financial product's future performance. To obtain advice tailored to your situation, contact a professional financial adviser. Some material is copyright and published under licence from ASX Operations Pty Ltd ACN 004 523 782 ("ASXO").
4. This commentary is provided by Investors Mutual Limited (IML) and has not been verified by Sandhurst Trustees Limited. Economic and outlook forecasts are not guaranteed to occur.

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This information is current as at 31 October 2017 (unless stated otherwise) and is subject to change without notice.

