

Sandhurst IML Industrial Share 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%, its 6th consecutive quarterly gain, while Europe's Stoxx50 and the Emerging Markets Indices surged +7.0% and +11.5% respectively. Emerging Markets enjoyed their best quarter in 5 years as investors continue to price in stronger global growth and a softening of the Trump administration's previously proposed trade protectionist measures.

Over the quarter, the US Federal Reserve raised interest rates 0.25% during March and signalled two further rate increases throughout 2017, with another 3 rises indicated for 2018. Commodities had a lacklustre quarter, with the oil price slipping -8% as an increase in the US rig count as well as an increase in US inventories outweighed the benefits of production cuts previously announced by OPEC. Iron ore fell -12% in March alone to finish the quarter slightly higher 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, to finish the quarter up +4.7%. All sectors, except for the Telcos, finished in positive territory. The Telco sector fell -4.6% over the quarter as continued concerns over Telstra's slowing profit growth following the company's first half earnings release.

The Healthcare, Consumer Staples and Utilities sectors helped lead the local market higher gaining +14.7%, +10.7% and +10.7% respectively. The heavyweight Financials sector gained +5.9% thanks mainly to an in line CBA result and strength in the share price of overseas banks.

The global sharemarket rally, which started after the election of Donald Trump in November, continued unabated into the March quarter with investors continuing to focus on the new President's pro-growth rhetoric on signs that global growth continues to remain largely positive.

In Australia, higher commodity prices and optimism towards our banks despite lacklustre earnings growth continued to help our market surge to 2 year highs.

Given that approval for many of the new US President's proposed policies appear to be 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. IML continue to select companies that look good from a value and quality aspect and remain on the lookout for companies that IML believe can grow their earnings in the next 3 to 5 years despite the continued unpredictable environment.

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 Industrials Accumulation Index.

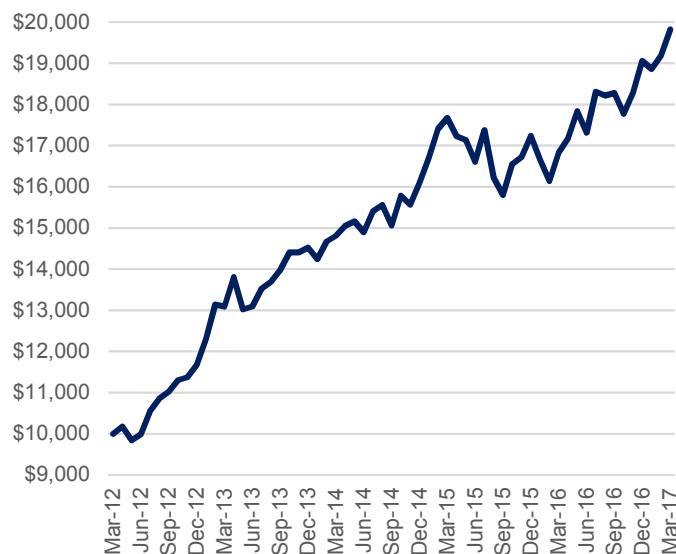
Fund information

Application	\$1.5300
Withdrawal	\$1.5224
Fund start date	11 January 2001
Fund size	\$184.30 Million

Fund performance

Morningstar Rating™ - 5 year*	★★★★★	
Morningstar Category Rank - 5 year*	5/89	
Performance period	Fund return ¹	Benchmark ²
1 month	3.36%	3.8%
3 months	4.02%	5.2%
1 year	17.75%	17.2%
3 years p.a.	10.21%	9.8%
5 years p.a.	14.66%	15.1%

Growth of \$10,000¹ over 5 years



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Portfolio performance & summary[#]

The Fund had another positive quarter gaining +4.02%, whilst a pleasing result, it underperformed the benchmark's gain of +5.2%. The Fund's return benefited from strong performances from several of its key holdings such as CSL, AGL, Transurban, Ausnet, Pact and Sonic Healthcare enjoying a strong quarter. The portfolio's underweighting to the Banks due to IML's caution over the sector held back the Fund's relative performance.

AGL (AGL) jumped by 21% over the quarter driven by a combination of factors including the closure of the Hazelwood brown coal power plant in Victoria at the end of March as well as higher gas prices which increases the cost to run gas fired power generators. AGL remains well positioned given its portfolio of long life and low cost power assets and will progressively benefit from the higher prices for electricity over time. IML continue to maintain a good weighting to AGL although have been trimming the Fund's holding into strength.

Myer (MYR) fell 12% over the March quarter after announcing a weaker than expected second quarter sales result. Despite lacklustre sales results, Myer's net profit after tax grew by 5.3% over the half due to Myer's recently introduced efficiency programmes. IML think Myer continues to execute well on its turnaround strategy, notwithstanding some challenging conditions.

CSL (CSL) had a strong quarter rising 26% after the company upgraded its FY17 guidance to net profit after tax growth from 11% to 18-20%. The drivers were stronger sales of plasma products as CSL gained market share due to competitor product shortages caused by manufacturing issues and poor planning in regards to plasma collections. IML continue to be long term holders of CSL and are optimistic about their outlook as several products in their development pipeline hit the market after years of significant investment.

While low interest rates continue to support the sharemarket, many stocks appear to be fully valued 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.

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 Large Value.

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The Sandhurst IML Industrial Share 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. Economic and outlook forecasts are not guaranteed to occur. Sandhurst has prepared this document based on information available to it. 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. 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.

Portfolio holdings

Portfolio	% of Fund
WESTPAC BANKING CORPORATION	10.56%
NATIONAL AUSTRALIA BANK LIMITED	9.14%
COMMONWEALTH BANK OF AUSTRALIA	7.39%
CSL LIMITED	4.91%
INSURANCE AUSTRALIA GROUP LIMITED	4.11%
TELSTRA CORPORATION LIMITED	3.43%
ANSELL LIMITED	2.93%
WESFARMERS LIMITED	2.76%
AMCOR LIMITED	2.71%
DUET GROUP	2.70%
Top Ten Stocks	50.64%
Other Stocks	44.11%
Cash	5.25%
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.

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