



Sandhurst Future Leaders Fund

As at 30 June 2011

Sharemarket commentary[#]

The mid and small cap market had a good year finishing up +14.8%, while the broader ASX 200 accumulation index gained +11.7%. After rallying through the first half of the year helped by the Fed's QE2 program and strength in commodity prices, markets weakened from February onwards. Causing the weakness were concerns about the sovereign debt problems of Europe, compounded by a tsunami which devastated Japan, civil unrest in many parts of the Middle East and North Africa and flooding on the East Coast of Australia. The year ended on a weak tone with growing investor concern about the outlook for global growth, Europe's sovereign debt crisis and evidence of a softening in domestic activity. The US market had a good year in local currency terms (S&P500 +28.1%), with strong corporate earnings, positive economic signals and supportive Fed policy all underpinning demand for stocks. The Australian Dollar rallied strongly over the year to finish up 27.5% against the USD at \$1.07. Despite increasing evidence of a slowing domestic economy the RBA continued to warn that the commodity boom poses a threat to inflation and maintained a tightening bias. In China, the People's Bank of China responded to increasing inflation pressures by announcing four hikes in key interest rates over the year in an attempt to slow their growth rate. This, combined with the troubles in Europe, saw many commodity prices pull back later in the year. Despite this late pull back, commodity prices generally posted strong gains for the year with gold up 23%, silver up 89%, copper up 44%, and oil up 33%. The bulk commodities such as, thermal coal and iron ore, were also up 58% and 54% respectively.

The strength in the AUD combined with the increasing level of uncertainty in domestic consumers (not helped by the planned introduction of the Carbon Pollution Reduction Scheme) saw many cyclical stocks fall over the June quarter with the small and mid-cap market down -7.9%. For the quarter the Consumer Discretionary, Materials, Industrials and Financials sectors all recorded large falls, due to weakness across media, building materials, retail, and funds management stocks. Mining and mining services stocks were impacted by expectations of weakening global growth, offset by gains in Iluka and Equinox.

In corporate news, M&A activity continued with Foxtel bidding for Austar, and private equity making an approach to Spotless, while Catalpa Resources and Conquest Mining proposed a scrip merger combined with an acquisition of some non-core assets from Newcrest Mining to form a new top 5 domestic gold producer. APA Group announced the acquisition of the Emu Downs wind farm in WA and a capital raising to fund it and several other capex projects. With the June financial year end approaching, several companies provided a full year guidance update, which resulted in a number of earnings downgrades, particularly in media, steel and retail stocks.

Fund information

Application (ex distribution)	\$0.7113
Redemption (ex distribution)	\$0.7077
ICR (% p.a.) as at 30 June 2011	2.10%
30 June 2011 Distribution (per unit)	\$0.0103
Fund start date	7 June 2002
Fund size as at 30 June 2011	\$22.65 Million

Fund performance

Performance period	Fund return*	Benchmark**
1 month	-2.5%	-4.3%
3 months	-1.8%	-7.9%
1 year	18.2%	14.8%
3 years [^]	7.4%	-2.2%

[^] % performance per annum.

* Performance figures are calculated before tax and after fees and costs; using redemption prices and assumes distributions are reinvested. Past performance is not an indication of future performance.

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



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Portfolio performance & summary[#]

The Future Leaders Fund had another excellent year returning 18.2%, significantly ahead of the benchmark which gained 14.8%. The Fund benefited from many good performances including Credit Corp, Thorn Group, Sky City, Coventry Group, McPhersons, APA Group, Bathurst Resources, Qube Logistics, Equinox, Campbell Bros., GPG and Iluka Resources. Much like FY2010, FY2011 proved to be a year of two distinct halves. Markets started the year strongly with the "risk on" trade firmly in vogue, which saw many cyclical and more speculative companies share prices run higher. Markets ran out of steam in February as concerns around the debt situation in Europe, compounded by a spate of natural disasters, saw markets pull back as the year progressed. In this environment the Fund was able to outperform as many of these gains proved illusionary, with most cyclicals falling sharply towards year end as markets adjusted to the slower growth environment. In this environment the Funds low weighting to cyclicals helped it outperform as it held most of the gains generated earlier in the year.

For the June quarter the Fund was down -1.6% which, while disappointing, was significantly better than the benchmark which fell -7.9%. For the quarter the Fund benefited from good performances by Spotless Group, Coventry Group, GPG, Sky City, Dulux Group and Iluka Resources, whilst the Fund's low weighting to domestic cyclicals and the mining sector benefited the Fund.

Spotless rallied over the quarter after announcing that it had received an approach from a private equity firm to acquire 100% of the company for \$2.50 per share. The Board has rejected the approach, as it believes the offer does not fully reflect the fundamental value of the company. It is not surprising to us that Spotless has attracted the attention of private equity. It is the leading multi-service outsourced service provider in Australia and New Zealand and this division has a history of being a fairly consistent business with its earnings underpinned by long term maintenance contracts. Like many companies, its earnings have been negatively impacted by weakness in the Australian economy and by soft apparel markets in the US and Europe. As Braiform's earnings depend on the level of retail sales in the US and Europe, which we fear could be depressed for some time, we have taken advantage of the recent spike in the share price to reduce our Fund's weighting while we will

Dulux also performed well for the Fund after the company announced its first half result. The company's result was ahead of expectations with EBIT up 10.5% which was a good result given the disruptions caused by the floods in Queensland to one of their manufacturing plants. It remains a core holding of the Fund as the company is well placed to continue to gain market share and steadily grow its earnings in the years ahead.

GPG also had a strong quarter following an update that reported a positive start to the year for Coats, their wholly owned subsidiary. The recent AGM approved a capital return, which signals the commencement of the process of unlocking value for shareholders, while the company has been able to exit some of its investments at favourable prices.

We continue to be cautious in our outlook for the market and remain very selective focusing on companies that we believe can continue to do well in what we see as being a slow growth environment. We remain cautious on cyclical companies and continue to focus on companies with strong, sustainable cash flows and strong market positions. Currently we are seeing many opportunities to buy such stocks at favourable valuations.

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

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 (Bank) ABN 11 068 049 178 AFSL 237879. Each of these companies 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 this Fund are not deposits with, guaranteed by, or liabilities of the Bank or any of its subsidiaries. This update is provided by Sandhurst and contains general advice only. Please consider your personal circumstances and read the PDS, available at Bendigo Bank branches or by phoning 1800 634 969, before making an investment decision.

[#]Sharemarket commentary and Portfolio performance & summary are provided by Investors Mutual Limited.

The information provided in this update is current as at 30 June 2011 and is subject to change.

Portfolio holdings

Portfolio	% of Fund
Amalgamated Holdings Limited	6.6%
Energy Developments Limited	4.9%
Cabcharge Australia Limited	4.5%
Salmat Limited	4.0%
Metcash Limited	3.9%
Tatts Group Limited	3.7%
Goodman Fielder Limited	3.4%
Credit Corp Group Limited	3.4%
Sky City Entertainment Group Limited	3.4%
Ridley Corporation Limited	3.0%
Top 10 Stocks	40.8%
Other Stocks	49.3%
Cash	9.9%
Total	100.0%

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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