

Sandhurst Future Leaders Fund

Sharemarket commentary[#]

The Australian mid and small cap sector finished the quarter down by 0.8%, lagging the overall index's return. Strength in overseas sharemarkets due to optimism of world growth helped many sharemarkets rally strongly during January and February although the tsunami in Japan, as well as unrest in many parts of the Middle East and North Africa led markets to fall sharply in early March. Sharemarkets however regained their poise in late March and while the overall index ended higher for the quarter, the mid and small cap sector finished the quarter with a negative return. Despite rising geopolitical tensions and a higher oil price, the US S&P500 finished stronger up 5.4% and near two year highs.

Many emerging markets returns were subdued over the quarter on inflation concerns exacerbated by rising oil and food prices. The Australian economy grew by 0.7% qtr on qtr in the December quarter although growth is expected to slow in the current quarter due to the impact of the Queensland floods. With Australian CPI inflation at 2.2%, the market is now assigning only a marginal probability of further rate rises during 2011. The Australian dollar finished at a record high of 103 US cents, despite trading as low as 97 US cents during the Japanese disaster.

The mid and small cap market ended the quarter down 0.8% due to a selloff that occurred during March which saw large falls recorded, in particular, in some of the mining stocks highlighting the risks inherent in this sector. For the quarter, the sector's overall return was negatively impacted predominantly by falls in the mining laden Materials and Energy sectors, with Uranium stocks particularly impacted by the nuclear incident in Japan, whilst the Industrials sector rose on the back of strong gains in mining services stocks like Monadelphous, United Group and Campbell Brothers.

Corporate news for the quarter was dominated by the December half-year earnings reports. Company results were generally in-line with expectations with the key themes being weaker than expected sales growth offset by some cost improvement. Most outlook statements remained subdued while dividend payments were generally increased. In a theme consistent with most retail exposed stocks, both David Jones and Myer downgraded guidance with Myer announcing that sales momentum had deteriorated since November and that it expected the challenging retail environment to continue into the second half.

In other news, WA News announced it would acquire 100% of Seven Media Group from Seven Group Holdings. Downer announced a restructure of several business segments and downgraded guidance while also announcing another capital raising, Billabong downgraded its FY11 profit expectations due to the Japanese earthquake and Metcash downgraded earnings guidance due to the difficult environment with earnings growth now expected to be in the range 3-5% while the company's legal challenge to the ACCC's disallowance of their proposed acquisition of Franklins reached the courts.

Fund information

Sandhurst Future Leaders Fund

Application	\$0.7350
Redemption	\$0.7314
ICR (% p.a.) as at 31 March 2011	2.10%
Fund start date	7 June 2002
Fund size as at 31 March 2011	\$23.70 Million

Fund Performance

Performance period	Fund Return*	Benchmark**
1 month	+1.2%	+0.0%
3 months	+3.3%	-0.8%
1 year	+14.7%	+9.8%
3 years [^]	+4.1%	-0.8%

[^] % 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 a strong quarter gaining +3.3% which was a strong result given the benchmarks decline of -0.8%. The Fund benefited from many good performances over the quarter including Credit Corp, Prime Television, GPG, Ansell, Campbell Brothers, Bathurst Resources and Transfield Services Infrastructure Fund, which rallied after Thai company Ratchaburi Electricity bid 85c cash for it.

Credit Corp reported a strong first half result of \$10.6m. This was a record for the company, up over 50% on the prior comparable period. The result was driven by higher collection efficiency as well as higher debt purchasing. As a result of the strong cashflows that the company generated, it was able to reduce debt and increase its interim dividend to 10cps from 3cps in the prior period.

GPG rallied over the month following news that management was moving to address the gap between its share price and the underlying value of its investment portfolio. This announcement comes after much shareholder agitation, including IML. The news will see the company move to realise its investments and make a capital return of at least A\$120m this year. The end outcome of this process could be that GPG becomes a pure exposure to Coats, a leading global manufacturer of thread and cord. Pleasingly, Coats reported a significant increase in full year profit to USD\$132m, up 38% on the back of an improved result by its Industrial division due to market share gains and a lift in underlying apparel demand.

Ansell rallied over the month, after another strong result. Despite significantly higher input costs, Ansell grew earnings per share by 14% on the back of a record result from their Occupational glove division which grew EBIT by 52%, due to higher sales which were up over 30%. Ansell has been a long-term holding for IML and we continue to see strong growth prospects for the company, as they continue to be the market leader and innovator in industrial gloves. Demand for these products continues to grow as safety standards around the world continue to improve.

We continue to be cautious in our outlook for the market and remain focused on companies that can continue to do well in what we believe will be a slow growth environment.

We continue to believe that earnings growth expectations are still too high for many cyclical companies and we remain focused on companies with strong, sustainable cash flows and strong market positions. We continue to see opportunities to buy such stocks at favourable valuations.

Portfolio holdings	
Portfolio	% of Fund
Amalgamated Holdings Limited	6.53%
Metcash Limited	4.69%
Energy Developments Limited	4.50%
Cabcharge Australia Limited	4.33%
Credit Corp Group Limited	4.13%
Salmat Limited	3.64%
Guinness Peat Group PLC	3.57%
Goodman Fielder Limited	3.49%
Tatts Group Limited	3.48%
Spotless Group Limited	3.47%
Top 10 Stocks	41.83%
Other Stocks	50.41%
Cash	7.76%
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.

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 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). 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 & strategy are provided by Investors Mutual Limited.