



Sandhurst Future Leaders Fund

As at 30 September 2011

Sharemarket commentary[#]

Equity markets experienced a major selloff over the September quarter following heightened concerns over the Eurozone sovereign debt crisis. Compounding this uncertainty was the news that S&P had downgraded the sovereign credit rating of the United States from AAA to AA+ and signs that the Chinese economy was slowing. Concerns about global growth pushed base metal and oil prices lower which led to falls in the Australian resources sector. All global markets were impacted with Europe fairsing the worst; the S&P500 was down -14.3%, the Nikkei 225 -11.4%, the FTSE 100 -13.7%, and the Euro Stoxx 50 -23.5%, while the local ASX200 index, was down -13.0% over the quarter.

Local economic data was soft, with the unemployment rate rising to 5.3%, business confidence declining and consumer sentiment falling over the quarter. Despite the softening outlook for growth, the RBA left the cash rate on hold at 4.75% for the third quarter in a row citing concerns about inflation. With the softer economic data, markets moved to price in lower interest rates with the 10 year bond declining to 4.22% down almost 100 bpts over the quarter. This fall, combined with weaker than expected demand for our commodity exports, saw the Australian dollar fall from its July highs, finishing September at around \$0.97 USD. Domestic market news flow was dominated by the full year reporting season which was broadly in line with expectations, though generally companies were cautious in their outlook. There were several noticeable disappointments, such as Transfield Services, Billabong and Aristocrat, and their share prices fell heavily as a result. A theme from reporting season was companies announcing capital management initiatives reflecting Board views that the share prices represent good value and generally robust balance sheets

The small and mid cap market ended down -13.7% for the quarter, after experiencing several rallies through the quarter the index fell heavily late in the quarter as concerns grew about the outlook for global growth. The concerns over global growth led to lower base metal and oil prices and a selloff in the energy (-22%) and materials (-16%) sectors. Bucking this trend was strength in the gold sector as the gold price gained over the quarter due to its perceived safe haven status. The selloff in markets saw many industrial companies fall over the month which was compounded by a reporting season which highlighted the weakness in the consumer discretionary sector, cost pressures for domestic manufacturers and a weakening building materials market.

Despite the soft equity market it was a busy quarter for corporate activity. Bow Energy rallied after receiving a \$521 million takeover offer from Arrow Energy, Santos announced a scrip bid for the balance of Eastern Star Gas that it does not already own, valuing that company at \$940m, Minara Resources rallied after receiving a takeover bid of \$1.02 billion from major shareholder Glencore, Rio Tinto & Mitsubishi bid \$125 a share for the balance of Coal & Allied they didn't already own, while Macarthur Coal recommended shareholders accept a joint offer from Peabody and ArcelorMittal for the company of \$16 a share, valuing Macarthur at \$4.8bn. Meanwhile Bandanna Energy fell after India's GMR dropped plans to buy the coal mining company. In other news Metcash received clearance from the Federal Court to acquire Franklins Supermarkets from Pick 'n Pay Retailers after the court dismissed an application by the ACCC that had sought to prevent the transaction (the ACCC has since signalled it will appeal the decision).

Fund information

Application	\$0.6422
Redemption	\$0.6390
ICR (% p.a.) as at 30 September 2011	2.10%
Fund start date	7 June 2002
Fund size as at 30 September 2011	\$18.24 Million

Fund performance

Performance period	Fund return*	Benchmark**
1 month	-5.2%	-10.5%
3 months	-9.7%	-13.7%
1 year	-1.9%	-13.2%
3 years [^]	3.7%	-2.0%

[^] % 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[#]

In what was a very difficult quarter for global equity markets the Future Leaders Fund fell -9.7%, outperforming the benchmark which fell -13.7%. Over the quarter the Fund benefited from gains by Bisalloy, Beach Petroleum and ConnectEast and solid performances by Amalgamated Holdings, Energy Developments, Coventry Group and Metcash while Salmat, GWA and APN News & Media disappointed. The Fund was also hurt in a relative sense by its low weighting to the gold sector which rallied strongly over the quarter.

Companies in the Fund reported generally robust results during the quarter in line with expectations. The generally healthy state of balance sheets allowed many companies to either hold or increase the level of their dividend. However, most companies were cautious in their outlook, reflecting the uncertain domestic environment.

Amalgamated Holdings reported an underlying pre-tax profit of \$72 million, which while down on the prior year, proved the resilience of the business in the face of natural disasters affecting cinema and hotel operations in Queensland and Christchurch and a generally weak consumer. Despite the tough consumer environment Cinemas still recorded their second best ever result. The company sold its 49% interest in Middle East cinema joint venture during the year for \$79m, allowing the payment of a 4cps special dividend and leaving the balance sheet with net cash of \$70 million. The company is very attractively priced on a PE of 10.6 times FY12 and a yield of 6.6% underpinned by stable and cash generative businesses.

Sky City also reported a solid result, particularly given the slower economy that prevailed in NZ over the preceding 12 months. Underlying profit was up 4% to \$131m on revenues that were up 4.5%. Significantly, gaming machine revenue in their Auckland property in the second half was up 10.5% on the pcp – this historically has been the profit driver for Sky City and augurs well for the upcoming 12 months. With the outlook for the NZ economy much improved due to strength in their export prices, a favourable political situation, improved regulatory framework and the upcoming Rugby World Cup, the outlook for Sky City is positive.

During the quarter, Bisalloy Steel (BIS) rallied strongly after announcing a 50:50 Joint Venture with one of China's top 10 steel producing groups - Jinan Iron & Steel Co. This JV represents a major growth opportunity for Bisalloy and will give the company access to the significantly larger Chinese market in a cost effective and low risk way. The JV will establish a facility in China with the capacity to produce at least 150,000 tonnes of quench and tempered (Q&T) steel plate annually for that market. In return for joint ownership of this venture Bisalloy will contribute US\$1m in cash and the licence to use their intellectual property and "bisplate" brand.

In line with our cautious outlook on the strength of the Australian economy as well as the fragile state of Europe and the US, we continue to hold quality companies such as Metcash, GWA, Amalgamated Holdings, Sky City, Cabcharge and Thorn Group. These companies are currently very attractively priced, continue to generate recurring and predictable earnings, have good balance sheets and credible management teams. While many of these companies' share prices have been impacted by the recent heavy falls in the sharemarket, they remain on track to produce reliable earnings and pay a consistent and sustainable dividend.

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 September 2011 and is subject to change.

Portfolio holdings

Portfolio	% of Fund
Amalgamated Holdings Limited	7.29%
Energy Developments Limited	5.65%
Cabcharge Australia Limited	4.67%
Metcash Limited	4.20%
Tatts Group Limited	3.80%
GWA Group Limited	3.62%
Salmat Limited	3.60%
Prime Media Group Limited	3.53%
Credit Corp Group Limited	3.48%
Ridley Corporation Limited	3.33%
Top 10 Stocks	43.17%
Other Stocks	48.27%
Cash	8.56%
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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