



Sandhurst Industrial Share Fund

As at 31 August 2011

Sharemarket commentary[#]

August was an unusually volatile month for global share markets, which left the ASX300 down 2.0%. After weeks of posturing, the US Congress finally passed a measure to raise the Treasury's borrowing capacity, and this led to the historic decision by Standard and Poor's to downgrade America's credit rating, from AAA to AA+. The downgrade added to fears surrounding the global economy. Concerns around growth pushed base metal and oil prices lower and the Australian resources sector fell 5.2% as a result. The impact was more severe internationally, with the S&P500 down 5.7%, the Nikkei 225 down 8.9%, the FTSE 100 down 7.2%, and the Euro Stoxx 50[®] down 13.8% on continuing European debt concerns.

Local economic data was mixed, with employment flat, business confidence improving and consumer confidence falling. With the outlook for growth and inflation uncertain, the RBA left the cash rate on hold, at 4.75%. Financial markets started August pricing a single interest rate cut in the next 12 months, and now expect at least three. Lower interest rate expectations, combined with weaker expected demand for our commodity exports brought the Australian dollar down from its July highs, finishing August at around \$1.07 USD. Australian government 10 year bonds continued to rally, with yields falling to 4.37%.

Corporate news flow was dominated by reporting season. Slightly more than half of companies reported earnings lower than consensus estimates. Themes emerging from the results included a weak consumer environment, cost pressures and delays in resources projects as well as a large number of buyback announcements. The best performing sectors were utilities and real estate, while the worst performers were energy and materials. The real estate sector performed well following strong results from the retail landlords, and benefited from corporate activity, with Macquarie Capital leading a consortium of investors in a takeover proposal for the Charter Hall Office listed property trust.

Fund information

Application	\$1.2994
Redemption	\$1.2930
ICR (% p.a.) as at 30 June 2011	2.08%
Fund start date	1 December 1999
Fund size as at 31 August 2011	\$230.35 Million

Fund performance

Performance period	Fund return*	Benchmark**
1 month	-1.6%	-0.5%
3 months	-4.8%	-6.1%
1 year	2.7%	0.0%
3 years [^]	1.2%	-1.0%
5 years [^]	0.2%	-1.4%
Since inception [^]	8.5%	5.2%

[^] % 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 Industrial Accumulation Index.



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Portfolio performance & summary[#]

In a disappointing month, the Fund returned negative 1.6%, which was below the benchmark's 0.5% fall. While Westpac, Telstra and Energy Developments all delivered positive returns, most shares were down and the fund was impacted by falls in the share prices of companies held such as CSL and Amalgamated Holdings.

Telstra reported 2011 net profit ahead of the market's expectations. Although Telstra's fixed line business is expected to decline over time, the mobile division performed very well, and has grown market share over the last six months. Shareholders will vote on the proposed participation in the rollout of the National Broadband Network at a meeting in October, which brings an agreement with the government and regulatory certainty one step closer. In the mean time the company is generating very strong cashflow and will continue to pay a 28c fully franked dividend, providing a 9.2% yield.

CSL fell 8% during the month despite announcing a solid result, which in constant currency delivered 14% profit growth. An issue faced by CSL, and the probable reason for the fall in share price over the month, has been the strong move in the Swiss Franc, a country where CSL has one of their main manufacturing facilities. The higher Swiss Franc has increased CSL's costs, and this is also going to be a headwind in FY12. Operationally CSL's business is performing well, with global blood plasma demand remaining strong. CSL also continues to increase market share with its new self injectable IVIG product. With CSL currently trading on 15x (FY12) and net cash on balance sheet, upside if the Swiss Franc falls and strong optionality from a phase III Alzheimer's trial, we remain confident in the fund's holding.

The fund does not have a holding in QBE due to our cautious outlook on their insurance margins, and our view that the stock is expensive relative to global insurance peers. During August QBE fell 14%. Although QBE's first half net profit was in line with market expectations, the composition of the earnings was of low quality. While premium revenue increased, this was predominantly as a result of US acquisitions, and many of these businesses appear to be approaching peak earnings. Catastrophe losses were significantly higher than expected. The QBE result benefited from abnormally high investment income and some currency gains. The underlying margin performance of the group continues to suffer from softness in global insurance markets, which makes organic growth difficult, and the balance sheet does not have capacity for acquisitions. We continue to favour IAG amongst the general insurers, based on the quality of its Australian retail franchise, pricing and bargaining power, and more conservative capital position.

The volatility and uncertainty the market displayed in August confirmed the validity of our focus on investments in quality companies such as Metcash, Origin, Dulux, CSL, Amcor, Telstra and Woolworths. These companies are reasonably valued, continue to generate recurring and predictable earnings, have good balance sheets and credible management teams. These attributes give us confidence in our portfolio's ability to produce attractive earnings growth and dividends in the years ahead, despite our cautious outlook on the strength of the Australian economy as well as the fragile state of Europe and the US.

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

The Sandhurst 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 (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 (SMRISF1005).

The information provided in this update is current as at 31 August 2011 and is subject to change.

Portfolio holdings

Portfolio	% of Fund
Westpac	12.27%
CBA	10.32%
Telstra	8.55%
NAB	7.15%
CSL	4.33%
Woolworths	4.25%
Amcor	4.12%
Amalgamated Holdings	3.30%
Sky City	3.10%
Metcash	3.07%
Top 10 Stocks	60.46%
Other Stocks	31.08%
Cash	8.46%
Total	100.00%

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