

Sandhurst Industrial Share Fund

Sharemarket commentary[#]

The Australian Industrials market rose 1.7% in February despite political unrest in the Middle East and the North African region, which sent oil prices up over \$100 a barrel. US and European markets also performed strongly with the S&P500 up +3.2% and the Euro Stoxx 600 up +2.3%, however Emerging markets continued to lag with the MSCI EM Asia market down by 4% in USD terms. The Australian reporting season was mixed with a number of companies alluding to difficult trading conditions particularly in the retail and media sectors. Economic data from Australia in February was quite strong with employment rising by 24k in January, a solid increase over December's 2.3k. Unemployment remained steady at 5% and consumer confidence unexpectedly rose 1.9% month on month, after falling 5.7% in January due to the QLD floods. The RBA left interest rates unchanged at 4.75% but forecast CPI to be at the upper limit of their 2-3% range by the end of 2011. The 10 year Australian Government bond rate fell 2bps to 5.49% and the Australian dollar ended the month up slightly at US101.87 cents.

Sector performance within the Australian sharemarket was mixed with the REITs and Financials strongest, up by 3.4% and 2.5% respectively, while the Information Technology and Healthcare sectors were the weakest down 3.8% and 3.2% respectively. The REITs sector was boosted by strong results from the developers Stockland and Mirvac, while Healthcare was down due to negative reactions to CSL and results for the pathology players, Sonic and Primary.

In corporate news for February, the general insurance industry contended with a couple of natural disasters, adding to the recent damage from flooding in Queensland. Cycle Yasi struck north Queensland though the impact was not as bad as first feared. Christchurch also suffered a 6.3 magnitude earthquake with estimates for Suncorp's maximum net loss up to NZ\$60m. In other news Myer fell 9.9% after they lowered their guidance for profit in FY11. Myer now expects profit to be 5% below last year; previous guidance was for profit growth of 5-10%. Myer said trading conditions had deteriorated since November and it expected the 'challenging retail environment' to continue.

Fund information

Sandhurst Industrial Share Fund

Application	\$1.3713
Redemption	\$1.3644
ICR (% p.a.) as at 30 June 2010	2.07%
Fund start date	1 December 1999
Fund size as at 28 February 2011	\$257.38 Million

Fund Performance

Performance period	Fund Return*	Benchmark**
1 month	+1.0%	+1.7%
3 months	+4.1%	+6.1%
1 year	+4.1%	+3.8%
3 years [^]	-0.5%	-0.9%
5 years [^]	+1.3%	+1.2%
Since Inception [^]	+9.3%	+6.1%

[^] % 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[#]

The Fund rose 1% during the month, which was below the benchmark's return of 1.7%. The Fund's performance was aided during the month by our holdings in the Telecommunications sectors as well as key holdings such as Amcor and Ansell, however positions in CSL and Salmat hurt the performance of the Fund in February.

Telstra outperformed after reporting a reasonable 1H11 result, in line with consensus. Guidance was re-iterated including the 28c dividend for 2 years. There were a number of key positives including strong operational trends, agreement of commercial terms on NBN and cost cutting under Project New, which saw salary costs down 3.5% and admin costs down 5.5%. Longer term market consensus is for near flat earnings growth from FY11 to FY13 against management's expectation at its Sept 2010 strategy day that FY13 EBITDA will be above FY10. This implies 7% EBITDA upside in FY13 if Telstra can meet its targets. Key uncertainties are improving (NBN Deal, retail performance, Future Fund overhang), which should continue to support the share price.

Ansell also had a strong month rallying 5% during February, after another strong result from the company. Despite significantly higher input costs, ANN grew EPS by 14% on the back of a record result from their Occupational glove division, where sales volumes were up as much as 30%. Ansell has been a long-term holding for IML. We continue to see strong growth prospects for the company as they continue to be the market leader/innovator in industrial gloves, and safety standards continue to improve around the world particularly in emerging markets.

Salmat had a poor month declining 12% after delivering a reasonable first half result and grew underlying net profit by 11%. Sentiment was dampened by a moderate downgrade to guidance for the financial year, premised on a declining retail sales environment and ongoing restructuring costs. Despite this the company retains a strong position in its key markets, with the potential to leverage client relationships and technology to generate new revenue streams.

With the interim reporting season now behind us we continue to see an uncertain economic environment. Given this outlook we believe the portfolio is well positioned predominantly towards quality companies that we believe can continue to do well despite the economic conditions. Companies with high fully franked dividend yields are particularly attractive to us as we believe dividends could represent a high percentage of investors' total returns in the future.

Portfolio holdings	
Portfolio	% of Fund
Westpac Banking Corporation	12.55%
Commonwealth Bank of Australia	9.41%
National Australia Bank Limited	7.07%
Telstra Corporation Limited	7.04%
CSL Limited	4.90%
Amcor Limited	4.41%
Woolworths	4.06%
Amalgamated Holdings Limited	3.05%
Insurance Australia Group	2.82%
Metcash	2.75%
Top 10 Stocks	58.06%
Other Stocks	32.98%
Cash	8.96%
Total	100.00%

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 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. (SMRISF1005)