

# Sandhurst Industrial Share Fund

## Sharemarket commentary<sup>#</sup>

The Australian sharemarket started 2011 with a small gain of 0.1% for the month of January, trading in a tight range all month thereby lagging overseas markets where the S&P500 was up 2.3% while European stocks, as measured by the Euro Stoxx 50, were up 5.8%. One of the reasons for the Australian market's relative weakness was the impact of the Queensland and Victorian floods, which have been estimated to reduce GDP by up to 0.5%. In response to the floods the Australian Government proposed a \$1.8bn flood levy to help fund the reconstruction of areas most affected. Australia economic data released in January was a little soft with employment only rising by 2.3k, a sharp contrast to the previous month's rise of 32.9k. Consumer confidence also fell 5.7% month on month, with news of the floods having an impact on sentiment. Core CPI for the December quarter was well below expectations at 2.2% year on year, at the lower end of the RBA's 2%-3% target range. The 10 year Australian Government bond rate fell 3bps to 5.55% and the Australian dollar weakened slightly to end the month at US102.33 cents.

Sector performance within the Australian sharemarket was mixed with Consumer Staples and Financials the strongest, both up 2.5%, while the Materials and Information Technology sectors were the weakest down 3.0% and 3.9% respectively. The Materials index underperformed for the first month since August and switching out of the commodity sectors appeared to benefit the Banks 2.9%.

Corporate news in January generally focused on the impact of the Queensland floods with many companies affected to varying degrees. One of the most affected company's was Suncorp, which estimated that the total direct cost from the floods to be approximately \$200-240m to cover the company's insurance claims and additional reinsurance costs.

### Fund information

#### Sandhurst Industrial Share Fund

Application	\$1.3576
Redemption	\$1.3509
ICR (% p.a.) as at 30 June 2010	2.07%
<b>Fund start date</b>	<b>1 December 1999</b>
Fund size as at 31 January 2011	\$257.02 Million

### Fund Performance

Performance period	Fund Return*	Benchmark**
1 month	+1.2%	+1.7%
3 months	+2.3%	+2.2%
1 year	+4.8%	+4.2%
3 years <sup>^</sup>	-1.8%	-3.2%
5 years <sup>^</sup>	+1.7%	+1.3%
Since Inception <sup>^</sup>	+9.3%	+6.1%

<sup>^</sup> % 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.

# Sandhurst Industrial Share Fund

## Portfolio performance & summary<sup>#</sup>

The Fund rose 1.2% during the month, broadly in line with the benchmark's return of 1.7%. The Fund's performance was assisted by positions in Westpac, CSL and Crown. Stocks that detracted from the Fund's performance over the month included Amalgamated Holdings and Goodman Fielder.

Salmat had a strong January after the company announced the acquisition of four digital communication businesses from the distressed Photon Group for \$75m. This acquisition fits directly with the company's aspirations to grow its presence in the fast growing digital communication space and enables Salmat to offer an enhanced range of services to its existing blue chip client base, such as self service SMS campaign management and the ability to offer advertising campaigns across mobile, online, social media and Interactive Voice Response (IVR) channels. The acquisition makes Salmat the clear market leader in email, SMS messaging and IVR marketing in Australia and its earnings per share accretive.

Crown rallied 4% during January, as the Crown share price benefited from its 33.5% holding in MPEL (owner of Macau gaming assets). The share price of MPEL rose 22% (\$6.36 to \$7.76) during the January, reflecting strong gross gaming revenues in Macau (up 33% yoy in the month of January). IML continues to favour Crown as a quality industrial company, however we have used this rally as an opportunity to trim our position.

Amalgamated Holdings detracted from our performance for the month falling by 5%. The company announced that its 1H11 results would be poor due to weakness at its cinemas owing to poor content and weather during the December half. The company's other businesses, Thredbo ski resort and Rydges Hotels, achieved solid growth. IML is very comfortable with its position in Amalgamated with its strong management, a net cash balance sheet and durable businesses. The stock trades on 12x FY11 EPS and a dividend yield of 6% fully franked.

In coming weeks, investors' focus will move towards the reporting of most Australian companies' interim results and full year forecasts. We remain cautious leading into this reporting season with mixed economies, higher input prices and continued subdued consumer spending keeping a lid on economic growth. We continue to focus the portfolio predominantly towards quality companies that we believe can continue to do well despite the uncertain economic outlook, with those companies with sustainable fully franked dividend yields of particular interest to us.

### Portfolio holdings

Portfolio	% of Fund
Westpac Banking Corporation	12.35%
Commonwealth Bank of Australia	9.77%
Telstra Corporation Limited	7.06%
National Australia Bank Limited	6.74%
CSL Limited	5.17%
Amcor Limited	4.50%
Woolworths	3.79%
Insurance Australia Group	3.26%
Amalgamated Holdings Limited	3.00%
Metcash	2.84%
Top 10 Stocks	58.48%
Other Stocks	33.79%
Cash	7.73%
Total	100.00%

For further information contact our Customer Service Centre on 1800 634 969 or visit our website: [www.sandhursttrustees.com.au/investments](http://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. <sup>#</sup>Sharemarket commentary and Portfolio performance & strategy are provided by Investors Mutual Limited. (SMRISF1005)