



Sandhurst Industrial Share Fund

As at 31 July 2011

Sharemarket commentary[#]

The Australian share market fell for a 4th consecutive month in July, posting a negative return of 3.8%. International headlines continued to be dominated by sovereign debt issues in Europe as well as the concerns about the political posturing and implications of a potential default by the US government as Republicans and Democrats debated the appropriate measures required in order for both parties to agree to lift the US debt ceiling. As a result of this most major overseas sharemarkets were also generally weaker with the US S&P 500 and FTSE 100 both declining by 2.2%. European stocks also had a very poor month with the Euro Stoxx 50 index falling 6.3% despite European Union leaders agreeing to a new debt relief package for Greece.

Australian statistics released during the month also showed weakness in both the business and consumer segments with soft retail numbers highlighting the very poor level of consumer activity in Australia. This data on house price, credit and buildings approvals released during the month pointed to softening domestic conditions and raised concerns amongst investors over many local companies' earnings prospects. Despite this, the Reserve Bank left interest rates unchanged at 4.75% following a stronger than expected March quarter CPI number. The flow through to the Australian dollar saw it reach a post float high against the USD, closing at over USD1.10 for the first time, further adding to concerns of the upcoming earnings season. The benchmark Australian ten-year yield fell by 40 basis points in July, its largest monthly drop since August 2010 as investors looked for safe havens among the global turmoil.

During the month, the Federal Government announced the details of its proposed carbon pricing scheme, with a price of \$23/t of CO₂ starting 1 July 2012. News Corp was caught up by investigations into phone hacking at its UK newspapers while BHP Billiton announced a \$14.3bn takeover offer for US shale gas company Petrohawk Energy. David Jones heavily downgraded its second half earnings citing a "dramatic and rapid deterioration in trading conditions", further highlighting the very fragile consumer environment in Australia. Other retailers such as Myer, JB HiFi and Harvey Norman suffered significant price falls during the month. The Telecom, Industrials and Materials sectors outperformed while Consumer Discretionary, Financials and REITs were the laggards with the majority of sectors finishing in the red.

Fund information

Application	\$1.3204
Redemption	\$1.3138
ICR (% p.a.) as at 30 June 2011	2.07%
Fund start date	1 December 1999
Fund size as at 31 July 2011	\$234.94 Million

Fund performance

Performance period	Fund return [*]	Benchmark ^{**}
1 month	-3.2%	-4.7%
3 months	-4.1%	-7.7%
1 year	2.8%	-0.4%
3 years [^]	3.3%	0.9%
5 years [^]	1.2%	-0.4%
Since inception [^]	8.7%	5.0%

[^] % 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 Industrial Accumulation Index.



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Portfolio performance & summary[#]

In a very difficult month, the Fund returned negative 3.2% for the month, which while disappointing, was better than the benchmark's 4.7% fall. The Fund benefited from its investments in Woolworths, Telstra and Sky City which held up reasonably well but was impacted by heavy falls in the share prices of companies held such as CSL and Westpac.

ConnectEast (CEU), the operator of the EastLink tollway in Melbourne, gained over 15% during the month after the company received an offer of \$0.55 per share (recommended by the board) from Horizon Roads, an investment vehicle managed by CP2, which with associates, currently owns and controls 35% of CEU. The proposal recognises the long term value inherent in the Eastlink toll road, and the high quality nature of the asset. Security holders remain entitled to receive a final 1c distribution and will vote on the proposal at a meeting in September.

Despite a difficult retail environment, Woolworths reported sales for FY11 of \$54.1 billion, representing growth of 4.7% over the previous year. Importantly, the core Australian supermarkets were able to grow same store sales by 3.0% in FY11 and 4.0% in 4Q11, supporting our view that Woolworths is maintaining its market share despite a reinvigorated Coles. Woolworths is a business that boasts very strong competitive advantage, a strong balance sheet and a very prudent management team. Woolworths remains dominant in the supermarket industry and remains attractive trading on 13 x 2012 earnings and a dividend yield of 5.5%.

During July, Energy Developments expanded its power generation portfolio, with the purchase of a West Australian remote energy provider, enGen, for \$101 million. enGen operates approximately 98 megawatts of power generation capacity at Australian mine sites and remote communities, which will bring the total Energy Developments remote area portfolio to 275 megawatts. Remote area power generation is expected to be a long-term growth market, which the company believes will almost triple in the coming decade, as mine and ancillary operations are developed without the support of established power grids. Energy Developments utility style operations continue to perform well and the stock continues to look good value.

Inline 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 focus our investments in quality companies such as Metcash, 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. While many of these companies' share prices are being impacted by the recent heavy falls in the sharemarket as selling has been indiscriminate, they remain on track to produce very attractive earnings growth and dividends in the years ahead.

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 July 2011 and is subject to change.

Portfolio holdings

Portfolio	% of Fund
Westpac	11.9%
CBA	10.3%
Telstra	8.3%
NAB	7.1%
CSL	4.6%
Woolworths	4.4%
Amcor	4.4%
Amalgamated Holdings	3.5%
Sky City	3.2%
Metcash	3.1%
Top 10 Stocks	60.8%
Other Stocks	29.6%
Cash	9.6%
Total	100.0%

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