

Sandhurst Industrial Share Fund

Sharemarket commentary[#]

Global markets weakened during May as the release of poor economic news from around the world impacted negatively on investor sentiment. The Australian sharemarket closed the month down 2.0% in line with falls in the US (S&P500), European and Asian sharemarkets which fell by 1.4%, 5% and 1.7% respectively. The Australian dollar retreated from its record high of US\$1.10 at the start of the month to close at \$1.07.

Data released in the US showed that the US economic recovery was losing momentum with retail sales weakening and houses under construction coming in at 418,000, the lowest since 1970. Sovereign debt issues in Europe were again in the headlines with several of the PIGS countries being downgraded by ratings agencies and with ongoing talks as to how to try and resolve the crisis. The arrest of IMF chief, Dominique Strauss-Kahn, on rape allegations also undermined confidence over the IMF's ability to respond to Europe's debt crisis. Concerns over the pace of Chinese growth also escalated as well as China raised its reserve requirement ratio by another 50bp - the eighth increase in the tightening cycle that started in November last year. In Australia, the RBA kept rates at 4.75% as the economy, outside of mining and energy, showed continued signs of slowing with retail sales down 0.5% in March m/m, while housing continued to soften with the value of home loan approvals down 1.5% m/m in March. Despite the Treasurer restating his intention to return Australia to surplus within two years, continued mixed signals from Canberra over the direction of Government policy in Australia also weighed heavily on the Australian sharemarket.

The best performing sectors were defensive sectors such as Telecommunications (+4.1%) and Consumer Staples (+0.5%) while the worst performing sectors were the highly cyclical sectors such as steel and building materials. Stocks such as Qantas, OneSteel and Boral all sank heavily on the realisation by many investors that it will be some years yet before these companies' earnings can recover meaningfully. Financials also had a poor month with the sector down almost 5%. The major banks were sold down on concerns about Australian house prices, slower than expected credit growth and nervousness in global credit markets due to the European sovereign debt crisis.

Given our long held view that economic growth both in Australia and elsewhere will be more subdued than in previous economic recoveries, we continue to focus on stocks that we believe can continue to do well in the present uncertain environment - a stance that has served our investors well in the last few years.

Fund information

Sandhurst Industrial Share Fund

| | |
|------------------------------------|------------------------|
| Application | \$1.3802 |
| Redemption | \$1.3733 |
| ICR (% p.a.) as at 30 June 2010 | 2.07% |
| Fund start date | 1 December 1999 |
| Fund size as at 31 May 2011 | \$251.79 Million |

Fund Performance

| Performance period | Fund Return* | Benchmark** |
|------------------------------|--------------|-------------|
| 1 month | -0.8% | -2.3% |
| 3 months | +0.7% | -1.7% |
| 1 year | +9.1% | +6.7% |
| 3 years [^] | +0.5% | -1.4% |
| 5 years [^] | +1.9% | +0.9% |
| Since Inception [^] | +9.2% | +5.9% |

[^] % 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's unit price fell by 0.8% during the month which was significantly better than the benchmark's 2.3% decline. The Fund did well thanks to some strong performances from key positions in stocks such as Telstra, Sky City and Dulux although Metcash and Westpac underperformed over the month.

Telstra continued to rally as the company continues to pick up new mobile and internet customers. Much of the growth is coming from the growth in new devices such as iPhones and iPads but growth is also coming from market share gains from competitors. With the NBN deal close to being signed off and the company predicting higher earnings in 2012 than in 2011 as well as the maintenance of the company's 28 cent dividend into 2012, we expect the company's share price to remain well supported. Telstra is also expected to announce capital management initiatives once the NBN deal is signed, which should add further support to the share price.

Metcash has drifted lower over the last few months due to investor concerns around the effects on the company's profitability and market share from the ongoing intense competition between Coles and Woolworths in the supermarket sector. The company's share price was also impacted by the ACCC blocking the proposed takeover of Franklins, with the case now to be decided by the Courts in the next few weeks. Since month end Metcash's share price has rallied after it released its full year 2010/11 results which showed that despite tough competition sales grew by 7% while earnings per share grew by 4.4%. In addition, in a sign of confidence of its position going forward, the final dividend was increased to 16 cents a share.

Dulux also performed well for the Fund after the company announced its first result as a public company after being spun off from Orica last July. The company's result was ahead of expectations. It remains a core holding of the Fund as the company appears set to continue to win market share going forward and remains very well positioned to steadily grow its earnings in the years ahead.

We remain comfortable with the positioning of our portfolio in core stocks such as Metcash, Westpac, Dulux, CSL, Amcor, Telstra and Woolworths. These stocks remain reasonable value, continue to generate recurring and predictable earnings, have good balance sheets and credible management teams. While cyclical stocks such as Qantas, Fairfax, and Boral have fallen significantly recently due to concerns over the pace of economic growth, we believe the earnings risk on these stocks remains very high given our view that economic growth is very likely to continue to disappoint going forward.

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

| Portfolio holdings | |
|---------------------------------|-----------|
| Portfolio | % of Fund |
| Westpac Banking Corporation | 12.16% |
| Commonwealth Bank of Australia | 9.54% |
| Telstra Corporation Limited | 7.87% |
| National Australia Bank Limited | 7.36% |
| CSL Limited | 4.81% |
| Amcor Limited | 4.39% |
| Woolworths | 4.26% |
| Insurance Australia Group | 3.26% |
| Amalgamated Holdings Limited | 3.22% |
| Sky City Entertainment Group | 3.15% |
| Top 10 Stocks | 60.02% |
| Other Stocks | 32.44% |
| Cash | 7.54% |
| Total | 100.00% |

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)