



Sandhurst Industrial Share Fund

As at 30 November 2011

Sharemarket commentary[#]

The ongoing European debt situation continued to weigh on investor sentiment and as a result global sharemarkets gave up some of the previous month's gains in volatile trading in November to continue in their overall sideways pattern. All global sharemarkets were on track to record significant losses for the month until co-ordinated action by six central banks on the last day of the month led to a massive rally on the last day of the month to erase much of the month's losses. The US S&P in fact rallied 4.3% on the last day of November which allowed it to finish the month down only -0.5%. The central bank actions were aimed at reducing US dollar funding costs for European lenders, to help alleviate the problems that many banks are finding in funding their operations. The Euro Stoxx 50 finished the month down 2.3%, after Italian bond yields breached the troublesome 7% mark, while Portugal, Hungary and Belgium all saw downgrades to their sovereign ratings. The Asian markets were also impacted by the European uncertainty with the Japanese Nikkei finished the month down 6.2%.

The Australian market fell 3.4% over the month led by the Bank and Resources sectors which finished down 6.8% and 6.6% respectively. Most defensive sectors such as Telcos, REITs, Healthcare and Utilities all performed well.

After revising its 2011 underlying inflation forecast from 3.25% to 2.5%, the RBA cut interest rates again by 25bps to 4.5% in early December. The cut was deemed prudent given the risk that the European sovereign debt crisis poses to global growth. Lower metals prices, combined with the rate cut to push the Australian dollar below parity for much of the month, before a late rally brought it to finish at 1.03 USD. The Australian benchmark 10 year bond rallied strongly during November with yields falling by a massive 58bps to 3.93%.

While the sharemarket continues to be volatile and dominated by traders, it is worth noting that we have now had two successive interest rate cuts in Australia and that some of the recent economic statistics from the US of late have been quite positive. We thus continue to ignore much of the day to day fluctuations based on continued macro concerns and noise and instead continue to focus on the very many well managed companies that we believe will continue to do well in the current patchy environment.

Fund information

Application	\$1.3254
Redemption	\$1.3188
ICR (% p.a.) as at 30 June 2011	2.08%
Fund start date	1 December 1999
Fund size as at 30 November 2011	\$232.29 Million

Fund performance

Performance period	Fund return*	Benchmark**
1 month	-1.0%	-2.2%
3 months	2.0%	0.8%
1 year	1.7%	-1.3%
3 years [^]	7.5%	7.6%
5 years [^]	-1.3%	-3.2%
Since inception [^]	8.5%	5.1%

[^] % 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[#]

Over the month, the Fund's unit price fell by 1.0% which while disappointing, was well ahead of the benchmarks' return of -2.2%. Our portfolio remains skewed towards quality companies with defensive characteristics that we believe will continue to outperform in the medium to longer term. We continue to focus on picking stocks that we think can continue to do well as opposed to being overly concerned with the current wild and often meaningless day to day gyrations of the sharemarket.

In a very competitive environment Metcash announced a credible first half result during the month. Total sales grew 1.7% with underlying earnings per share up 1.3% with the company also announcing a higher interim dividend of 11.5c. The core IGA distribution business reported sales growth of 2.2%, and this division is set to benefit going forward from the recently consummated Franklins acquisition. Franklins will increase Metcash's market share in the all important NSW market and enable the company to generate significant operational efficiencies. The company also raised its full year earnings guidance following the Franklins acquisition. Metcash remains reasonable value on a PE of less than 12 times earnings and a yield of 7% fully franked.

Dulux also did well over the month after announcing a strong full year result. The result was particularly pleasing given the difficult operating environment with the Queensland floods disrupting production at the company's Rocklea factory, a soft housing market and higher input costs. Despite all these factors the company was able to grow its profit 8.5% to \$77.6m. Dulux remains a core holding of our Fund as it possesses many of the characteristics we look for in a company, with its iconic coatings brands generating a high level of recurring earnings, management is of a very high calibre and the company's balance sheet is strong. Given all these positive characteristics, Dulux remains attractive trading on a PE of 12x and a yield of over 5 % fully franked.

Spotless also performed strongly over the month following an announcement that the Board had received a non-binding, conditional proposal to acquire 100% of the company. The proposal is for a scheme of arrangement at \$2.63 per share with Pacific Equity Partners (PEP) being the bidder. We believe that this price represents an attractive offer for the company. Subsequent to month end PEP effectively increased their offer by agreeing to let shareholders keep the interim dividend of 5c, in response the Board agreed to provide PEP with access to certain due diligence material.

We continue to focus our research on investing in defensive and quality companies which we believe offer excellent value on a longer term basis. This philosophy has served our investors well since the inception of the Fund in 1998, and we believe it will continue to do so in the current slow growth environment.

We will continue to favour companies such as Dulux, CSL, Orica, Woolworths, Amcor and Telstra in our portfolios and we believe that these companies will provide investors with reasonable returns in the years ahead as they produce attractive earnings growth and reliable dividends. We are still not tempted to invest in many seemingly "cheap" cyclical stocks despite the severe drop suffered by many of these stocks over the last 12 months as we remain cautious overall in our outlook on the strength of many economies.

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 30 November 2011 and is subject to change.

Portfolio holdings

Portfolio	% of Fund
Westpac	12.15%
CBA	9.88%
Telstra	8.85%
NAB	7.00%
Woolworths	5.02%
CSL	4.76%
Amcor	4.06%
Amalgamated Holdings	3.36%
Metcash	3.03%
Insurance Australia Group	2.96%
Top 10 Stocks	61.07%
Other Stocks	28.78%
Cash	10.15%
Total	100.00%

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