



# Sandhurst Industrial Share Fund

As at 31 October 2011

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

Global sharemarkets rebounded from the previous quarter's slump in October. Investor sentiment, which remains in a fickle state, improved on the hope that a resolution to the long running European sovereign debt saga was close at hand. As a result European sharemarkets closed up 9.4 %, Asian markets bounced 11.8% over the month, and the US S&P500 rose up 10.8% - the strongest monthly rise recorded in the US since December 1991. The Australian market also rallied to finish up 7.2%. The rises in Australia were led by the Banks up 10.7% and the Resources sector up 9.2%, thus recovering some of the heavy losses suffered in the September quarter. Unsurprisingly most defensive sectors such as Telcos, Consumer Staples, Healthcare and Utilities all underperformed the rising market.

The Australian economy appeared to be bottoming out with, data released showing a rise in both business and consumer confidence. The Australian dollar rebounded 9% over the month to finish at US\$1.053 thanks to broadly higher commodity prices with the LME Metals Index up 12% - although iron ore prices sagged over the month due to an apparent slowdown in demand from China. After rallying strongly in the previous quarter, the Australian benchmark 10 year bond sold off with yields rising 33bps to 4.55% despite a benign 3Q CPI. The faltering global economy and lower than expected CPI spurred the RBA to lower interest rates by 25bp cut soon after month end to bring the cash rate down to 4.5%.

Macro news dominated the financial news headlines while it was very quiet month in the way of corporate news. Sims Metal and Transfield Services announced an intention to undertake a buy-back of their shares. This continues a trend which now has the number of companies within the ASX200 announcing buy-backs totalling 25. In other news, Qantas grounded all flights towards the end of the month as the company and unions reached a critical point in their negotiations.

It is debateable how much of the selling and buying that we have seen in the last few months has been by genuine investors as opposed to hedge funds and traders trying to profit from the increased volatility due to the uncertain macro environment. While it is hard to see many of the current macro uncertainties being resolved quickly, the sharemarket continues to present some very attractive opportunities for the patient investor.

## Fund information

Application	\$1.3383
Redemption	\$1.3317
ICR (% p.a.) as at 30 June 2011	2.08%
<b>Fund start date</b>	<b>1 December 1999</b>
Fund size as at 31 October 2011	\$236.56 Million

## Fund performance

Performance period	Fund return*	Benchmark**
1 month	4.1%	6.4%
3 months	1.4%	2.5%
1 year	1.9%	-1.1%
3 years <sup>^</sup>	5.2%	5.5%
5 years <sup>^</sup>	-0.5%	-2.1%
Since inception <sup>^</sup>	8.7%	5.4%

<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.



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

Over the month, the Fund's unit price gained by 4.1% which while a good return was behind the stronger performance of the market. Our portfolio remains heavily 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.

Woolworths is illustrative of investors thinking in October. Its shares ended down 4.2% over the month, reflecting a rotation out of defensives and into lower quality cyclicals. The company reported solid 1Q12 sales growth of 4.9%, which in our view is quite reasonable in this slow growth environment. We recognise that Woolworths' core supermarkets business is being tested by a rejuvenated Coles, as evidenced by the latter's stronger comparable store sales growth. However, we believe Coles' revival is so far based on Coles making the most of the opportunity to catch up on a decade of underperformance. Woolworths remains the superior of the two in our view. However, in comparison to Coles, Woolworths continues to achieve materially greater sales per square metre and almost double the margins. We remain comfortable with our Woolworths holding, considering the durability of its businesses, its competitive strengths, the generation of strong and resilient cash flows, and the reasonable growth prospects ahead. Its shares trade at very reasonable levels, at 13x FY12 earnings and on a fully franked dividend yield of 5.5%.

CSL also fell over the month, down 2.8%. The company held its AGM at which it confirmed a \$900 million buy-back and reaffirmed profit guidance for net profit to rise by 10% in FY12 on a constant currency basis. Despite this, the stock fell due to the strong rise in the Australian dollar over the month. Most of the company's earnings are made offshore and the dollar's strength means these earnings are crimped on their translation back into Australian dollars.

Orica rose strongly by 10.7% over the month, rising 10.7%. In its core business, Orica is a leading manufacturer of explosive and, as such, occupies a privileged position in an industry with high barriers to entry and strong growth prospects. Its explosives are sold predominantly to support mining activities and its business therefore benefits from the quite resilient upward trend of mining volumes (as distinct from the cyclical nature of commodity prices). We believe Orica is well managed and will continue to be when the new CEO, announced this month to be ex-Newcrest CEO Ian Smith, takes the helm in February.

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 thus 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 most seemingly "cheap" cyclical stocks despite the severe drop suffered by many of these stocks over the last 12 months as we remain cautious in our outlook on the strength of the European and US economies.

**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 (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.

<sup>#</sup>Sharemarket commentary and Portfolio performance & summary are provided by Investors Mutual Limited (SMRISF1005).

The information provided in this update is current as at 31 October 2011 and is subject to change.

## Portfolio holdings

Portfolio	% of Fund
Westpac	12.91%
CBA	10.06%
Telstra	8.50%
NAB	7.53%
CSL	4.31%
Amcor	3.96%
Woolworths	3.90%
Amalgamated Holdings	3.26%
Metcash	3.07%
Sky City	3.03%
Top 10 Stocks	60.53%
Other Stocks	27.49%
Cash	11.98%
<b>Total</b>	<b>100.00%</b>

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