

Sandhurst IML Industrial Share Fund

Sharemarket commentary[#]

The Australian industrial sharemarket rose 0.8% over the December quarter, ending the calendar year down -2.6% including dividends. This result reflected positive gains in international markets, despite weak bond markets, tensions in Korea and China's move to a policy tightening bias. The domestic economic data during December indicated the economy slowed in the September quarter, with GDP growth at 0.2% qoq. Employment growth remained strong, with November full-time employment growth twice consensus estimates. The RBA raised the official cash rate 25bps during the quarter, to finish the year at 4.75%. Combined with an increase in commodity prices, this underpinned the Australian dollar which hit an all time high since floating in December 1983 and finished the year above parity at 101.6 US cents.

The best performing sectors for the quarter were the Healthcare (+8.3%) and Information Technology (+8.0%) and Telecommunication (+6.1%) sectors. Healthcare had a strong quarter on the back of two major product recalls from offshore competitors of both CSL and Cochlear. The worst performing sectors were the Consumer staples (-5.1%), REIT (-2.8%) and Consumer Discretionary (-2.4%) sectors. These sectors underperformed due to the weaker than expected retail environment, with retail sales falling in October 1.1% mom and discretionary spending falling 1.7% mom.

In corporate news, we saw QR National complete its initial public offering, the largest in Australia since the sale of Telstra 1 shares in 1997, with the Queensland Government retaining a 40% ownership. Westfield Holdings demerged a 50% interest in its Australian and New Zealand shopping centres into a new vehicle WRT, as well as raising \$2bn in the process. Lend Lease purchased Valemus for \$1.1bn, Bilfinger Berger's Australian construction business. The acquisition was funded from on balance sheet cash and debt and was 15% accretive to earnings for FY12 prior to any cost synergies.

Portfolio performance & summary[#]

The Fund rose 1.7% during the quarter, which was favourable to the benchmark's return of 0.8%. This was due to overweight exposures in the Healthcare and Telecommunications; positions in Sky City, ASX and Lend Lease also benefited the Fund's performance.

Sky City performed well for the fund over quarter, rising 16.7%. The Company announced a pleasing first quarter update at their AGM with normalised revenue up over 3% on pcp and NPAT up 5%. In addition management is expecting the rugby World Cup to increase earnings 20-25% for the first half 2012. Sky City also held an investor day in December, which was well received by the market. The day highlighted the operational improvements, positive changes in management as well as areas of improvement still to come – such as loyalty programs and changes to food and beverage offers.

Fund information

Sandhurst IML Industrial Share Fund

Application (ex distribution)	\$1.0727
Redemption (ex distribution)	\$1.0673
December 2010 distribution (per unit)	\$0.0326
ICR (% p.a.) as at 31 December 2010	0.95%
Fund start date	11 January 2001
Fund size as at 31 December 2010	\$123.57 Million

Fund Performance

Performance period	Fund Return*	Benchmark**
1 month	+1.9%	+2.5%
3 months	+1.7%	+0.8%
1 year	+0.2%	-2.6%
3 years [^]	-3.8%	-7.8%
5 years [^]	+2.8%	+1.3%

[^] % 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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ASX rose 17% in the December quarter thanks to a bid from Singapore Exchange which offered A\$22 in cash plus 3.472 SGX shares for each ASX share. At the time of the announcement, the transaction valued ASX at \$48 per share, which represented a 37% premium to the price at which it traded just prior to the announcement. ASX's share price rose but has traded lower since the announcement as many are uncertain the deal will go ahead given the regulatory hurdles and the high level of political scrutiny.

Metcash detracted from performance over the quarter, down 6.0%. Metcash reported its 1H11 result during the quarter, with net profit increasing just 1% and the Board stating that it was cautious over its guidance of 6%-8% profit growth for the full year due to a weak near-term outlook for food inflation. Metcash's proposed \$215m acquisition of Franklins was also knocked back by the ACCC, but Metcash challenged the decision and the matter is set for the Courts within the next few months. The acquisition is a positive one for Metcash, being 5% accretive to earnings, and supports a much stronger food distribution business in NSW, where the company has historically been relatively weak.

The Australian Industrial market has had quite a lean year in 2010 falling -2.6% including dividends. This has been due to the low growth environment the economy finds itself in, where higher interest rates and general deleveraging have been restricting growth. With European sovereign debt issues and China now in a tightening bias, we continue to position the portfolio defensively and towards quality companies offering good value and that can grow in a more subdued economy going forward. These companies with high fully franked dividend yields are of particular interest as we believe dividend yields will continue to make up a large proportion of investors total returns.

Portfolio holdings	
Portfolio	% of Fund
Westpac Banking Corporation	11.91%
Commonwealth Bank of Australia	9.54%
Telstra Corporation Limited	7.20%
National Australia Bank Limited	6.65%
CSL Limited	5.45%
Amcor Limited	4.60%
Woolworths	3.97%
Amalgamated Holdings Limited	3.53%
Insurance Australia Group	3.38%
Sky City Entertainment	3.04%
Top 10 Stocks	59.27%
Other Stocks	34.17%
Cash	6.0%
Total	100.00%

Please note the portfolio information supplied above is based on the underlying managed investment scheme, in addition, the Fund may directly hold small amounts of cash.

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

The Sandhurst IML 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. (SQWISF1006)