



# Sandhurst IML Industrial Share Fund

As at 30 September 2011

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

In a very volatile quarter, sharemarkets globally had one of their worst quarters on record with the benchmark MSCI World Index down 17.1% as investors were in near panic on the prospects of a default by Greece, as well as on heightening concerns of the contagion impact on credit markets if this were to happen. The Australian share market was heavily impacted by global events with the ASX300 finishing down 11.7% for the quarter. The Resources sector in Australia led the falls, down 19.7%, as global growth fears led sharp falls in base metals with the exception of gold, which hit a record price during the quarter as investors sought safe havens.

During the quarter, the US congress narrowly avoided a breaching of the federal debt ceiling although this did not stop S&P from downgrading US debt for the first time ever from AAA to AA+. The anticipated QE3 did not materialise and instead, the Fed launched "Operation Twist", a \$400bn program which sells short-term notes and uses the proceeds to purchase long-term Treasuries. But the news that really unsettled investors late in the quarter was the continuing saga of the situation in Europe where leaders there continued to look for a workable solution to ensure that suitable measures were in place to prevent a contagion amongst debt markets should a Greek default occur. Locally the Reserve Bank kept the cash rate at 4.75% for a third consecutive quarter with many now expecting a rate cut at some stage due to increasing signs of softness in the domestic economy with unemployment rising to 5.3% and both Australian consumer and business confidence indices falling. House prices, credit data and retail sales all remained soft while building approvals also fell. The Australian Dollar fell almost 10% against the US over the quarter as a result of softening commodity prices and a flight back to the "safety" of the previously unpopular US reserve currency.

Corporate news flow was dominated by reporting season with most companies being cautious on their outlook. A positive sign was an increased number of buybacks announced a reflection that companies have generally got their balance sheets in better order compared to pre GFC levels. During the quarter, Fosters Group was the subject of a bid from SABMiller which gained board recommendation at the second attempt and BHP Billiton announced a \$14bn acquisition of US shale gas company - Petrohawk Energy.

## Fund information

Application	\$1.0343
Redemption	\$1.0292
ICR (% p.a.) as at 30 September 2011	0.95%
<b>Fund start date</b>	<b>11 January 2001</b>
Fund size as at 30 September 2011	\$111.89 Million

## Fund performance

Performance period	Fund return*	Benchmark**
1 month	-1.0%	-3.2%
3 months	-5.3%	-8.2%
1 year	-0.4%	-6.7%
3 years <sup>^</sup>	3.0%	-0.4%
5 years <sup>^</sup>	0.6%	-2.5%

<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.



# Sandhurst IML

## Industrial Share Fund

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

Over the quarter, the Fund returned negative 5.3%, which while disappointing in an absolute sense, was better than the benchmark's 8.2% fall. Our stockpicking served investors well over the quarter with core holdings like Telstra, Metcash and Ramsay Health Care holding up well while Fosters and ConnectEast were both subject to takeover bids.

After rejecting SABMiller's initial \$4.90 bid as inadequate, the Fosters Board recommended a revised bid of \$5.5325 per share. The offer price consists of \$5.10 cash, a 30c capital return and a dividend of 13.25c per share. IML has held Fosters for some time, attracted by the quality of its cash flows. We consider SAB Miller's offer a very full price.

ConnectEast (CEU) was also the subject of a successful bid. The company is the owner operator of a motorway running in Melbourne's south-east. The 55 cent per share offer came from Horizon Roads, an investment vehicle managed by CP2, which with associates owned 35% of CEU. Despite the offer being recommended by the Board, the bid was only narrowly passed by shareholders at the scheme meeting held in September. While we have been attracted to CEU in our view the bid adequately reflects the value of the group.

Ramsay Health Care (RHC) had another good quarter. Ramsay is Australia's largest private hospital operator and it also operates hospitals in France, the United Kingdom and Indonesia. For the 2011 financial year, Ramsay produced another excellent result. An outstanding cash-flow performance (free cash flow 152% of NPAT) materially lowered RHC's debt, giving the company more headroom to fund further brown-field capex or acquisitions. While the European hospitals are likely to have muted growth over the next few years due to Government expenditure cuts, this segment only accounts for 18% of EBIT and will be more than compensated for by growth in Australia. We remain attracted to RHC given its strong cash-flows, superior management, a solid balance sheet and continued good growth prospects even in a weak economic environment.

The ongoing macro uncertainties have dominated headlines in the last few months and have caused the share prices of many stocks to have fallen very heavily as investors fear for the worst. On a three to five year view, there is excellent value now apparent in the share prices of many Australian listed companies. Given that our view remains that economic growth both locally and internationally is going to be patchy for some time yet, one has to remain very selective in the current environment. IML continues to favour good quality companies that continue to generate recurring and predictable earnings streams, have good balance sheets and credible management teams. This philosophy has served our investors well since the inception of the Fund in 1998.

We thus continue to favour companies such as Metcash, Origin, 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 not tempted to invest in seemingly "cheap" cyclical stocks despite the severe drop suffered by many of these stocks as we remain cautious in our outlook on the strength of the Australian, 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 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 (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.

The information provided in this update is current as at 30 September 2011 and is subject to change.

### Portfolio holdings

Portfolio	% of Fund
Westpac Banking Corporation	13.28%
Commonwealth Bank of Australia	10.09%
Telstra Corporation Limited	8.72%
National Australia Bank Limited	6.97%
Woolworths Limited	5.04%
CSL Limited	4.65%
Amalgamated Holdings Limited	3.78%
Metcash Limited	3.67%
Amcor Limited	3.67%
Insurance Australia Group Limited	3.09%
Top 10 Stocks	62.96%
Other Stocks	30.01%
Cash	7.03%
<b>Total</b>	<b>100.00%</b>

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.

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