



Sandhurst Professional IML Australian Share Fund

As at 30 June 2011

Sharemarket commentary[#]

Despite a weak final quarter, the Australian share market had a reasonable year posting a return of 11.9% for the financial year. The stock market rallied from the beginning of the financial year through to March when the tsunami in Japan as well as unrest in many parts of the Middle East and North Africa led markets to fall sharply in early March. Despite a rebound in mid March, share markets around the world then fell sharply in the final quarter as growing investor concern about global growth and Europe's sovereign crisis as well as growing evidence of a softening in Australian domestic activity unnerved investors. Overseas share markets also finished in positive territory for the year ended 30 June with the S&P500 recording a 28% rise while the Euro Stoxx 50 recorded a 10.7% gain. The US was driven by corporate earnings which were helped by a weak US dollar and very supportive Fed policy. The Australian dollar rallied strongly against the USD to finish up 27.5% over the financial year at just over \$1.07 USD - helped by our higher interest rates.

The Reserve Bank moved in November, raising the cash rate by 25 basis points to 4.75%. Despite only one increase for the year, the RBA continued to warn that the commodity boom poses a medium-term inflation threat. The data in the December half supported these concerns with employment growing by 184k, but momentum appeared to fade in the June half. From November, the People's Bank of China announced four hikes in key interest rates. The US Federal Reserve policy remained expansionary with the Fed funds range held at 0-0.25% and the implementation of a \$600bn program of 'quantitative easing' between November and June.

The year saw a number of significant corporate deals including the IPO of QR National, the acquisition of AXA by AMP and a bid in June for Fosters by SAB Miller. The bid for ASX by Singapore Stock Exchange was knocked back due to political hurdles. The best performing sectors over the financial year were (the mining-heavy) Materials (+17.5%) and Industrials (+11.2%) while the worst performing sectors were telecommunications (affected by regulatory uncertainty) and Information Technology. Fosters and Tabcorp, announcing demergers, both had a good year up 13.3% and 20.5% respectively while many cyclical stocks such as Bluescope Steel, Fairfax and Qantas had woeful years recording losses of 39%, 23% and 16 % respectively.

Fund information

Application (ex distribution)	\$0.8533
Redemption (ex distribution)	\$0.8490
ICR (% p.a.) as at 30 June 2011	1.30%
30 June 2011 Distribution (per unit)	\$0.0293
Fund start date	1 June 2006
Fund size as at 30 June 2011	\$7.77 Million

Fund performance

Performance period	Fund return*	Benchmark**
1 month	-0.2%	-2.0%
3 months	-0.9%	-4.3%
1 year	12.2%	11.9%
3 years [^]	4.7%	0.3%

[^] % 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 Accumulation Index.



Sandhurst Professional IML

Australian Share Fund

Portfolio performance & summary[#]

The Fund had a successful year returning 12.2% to its investors, which was better than the benchmark's 11.9% rise. The Fund did well thanks to some strong contributions from positions in stocks such as Metcash, Tattersalls and Bunnings Warehouse Property Trust although Telstra and IAG underperformed over the year.

Metcash remains a key IML holding and exhibits many of the qualities we look for in an investment. Besides strong cash flows, predictable and recurring earnings, it possesses one of the best management teams in the country, under the stewardship of Andrew Reitzer (CEO) and Adrian Gratwicke (CFO). Reported profit for the year was up 6%, a solid result given the increases in the cost of doing business. Like for like sales were up over 5% and pleasingly the dividend was increased. During the year Metcash made an offer for the Franklins supermarket chain, but was knocked back by the ACCC. Metcash have challenged the ruling and a win would provide some upside to earnings.

Sky City has been a strong performer over the year. We are attracted to the company because it is an easily understandable business, with excellent management in Nigel Morrison (CEO) and a solid balance sheet. Indeed, debt has greatly reduced under current management and the company now have no bank debt. Based on IML's valuation the stock is fairly priced at these levels. However, our conservative valuation does not capture upside from participation in the National Convention Centre in Auckland, expansion in Adelaide (potentially adding 2 to 3 times the current EBITDA contribution from Adelaide) and moving from 1 salon to 4, boosting International Business (VIP play). The 2012 Rugby World Cup will provide an added boost to earnings in 2012.

Amcor performed well over the year, outperforming the market by 5% in the 12 months to 30 June 2011. Amcor has a defensive portfolio of products (tobacco, food, healthcare) and its earnings profile is underpinned by realisation of synergies from the Alcan Packaging acquisition. The company delivered a solid interim result and confirmed a 25% uplift in the Alcan synergy targets and that there are operational improvements over and above the cost synergies (€15m in the half). The Ball Plastics Packaging integration is also tracking well. The major businesses are experiencing momentum although Australasian volumes have been impacted by the high AUD and weak consumer expenditure. While Amcor faces increased raw material costs, it is recovering these increases and passing them through to customers. Notwithstanding these headwinds, the company anticipates second half earnings to be well ahead of the prior year.

We retain our cautious view on economic growth both in Australia and internationally. This is owing to concerns over European sovereign debt issues, and a tepid US recovery resulting from among other things, housing related issues and Government monetary and fiscal policy. We continue to focus on stocks that we believe will continue to do well in the present uncertain environment. Core stocks such as Metcash, Origin, Dulux, CSL, Amcor, Telstra and Woolworths remain reasonable value, continue to generate recurring and predictable earnings, have good balance sheets and credible management teams.

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

The Sandhurst Professional IML Australian 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.

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

Portfolio holdings

Portfolio	% of Fund
BHP Billiton Limited	9.2%
Westpac Banking Corporation	9.2%
Commonwealth Bank of Australia	7.7%
Telstra Corporation Limited	6.8%
Origin Energy Limited	4.8%
CSL Limited	4.5%
Woolworths Limited	3.6%
National Australia Bank Limited	3.6%
Metcash Limited	3.4%
Amcor Limited	3.4%
Top Ten Stocks	56.2%
Other Stocks	36.2%
Cash	7.6%
Total	100.0%

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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