

Sandhurst Professional IML Future Leaders Fund

Sharemarket commentary[#]

The ASX 200 and mid and small-cap markets spent the quarter range trading. After starting the quarter pushing toward 5,000 the ASX200 sold-off in mid-January back towards 4500 by mid-February. The sell-off was sparked by news that the Chinese authorities had tightened monetary policy and were clamping down on excessive lending by many Chinese banks, in response to inflationary concerns. Further compounding the global economic outlook was uncertainty on whether the Greek Government could refinance its debt after a major ratings agency cut the rating on its sovereign debt. As the quarter progressed these concerns dissipated and the market moved higher, driven by a reporting season which met expectations, improved economic dataflow and increasing bulk commodity prices.

Within the mid and small cap sectors, the performance was mixed with the Energy, Materials and Consumer Discretionary sectors performing well and the Consumer Staples and Utilities sectors underperforming.

The major focus of the quarter was the half year earnings season which, while generally in-line with expectations reflected the difficult trading environment many companies have endured over the last 6 months. Most companies were very conservative in their guidance and cautious in their outlook statements. The general themes from reporting season were weak revenue but good cost and working capital management with company balance sheets generally stronger.

In other news, Seven Network announced a proposed merger with WesTrac Group, an equipment management company owned by Seven's Chairman Kerry Stokes. Corporate activity returned to the market with Arrow Energy accepting a joint bid from Shell and PetroChina for its Australian operations of \$4.70, while CSR eventually entered discussions with Chinese company, Bright Food to buy their sugar business after the Federal Court rejected their attempt to demerge the business. In addition, MacArthur Coal received a takeover bid from Peabody Coal pitched initially at \$13.

Portfolio performance & summary[#]

The Future Leaders Fund declined by -1.2% over the quarter, ahead of the benchmark which fell -1.5%. For the quarter the Fund benefited from good performances by Corporate Express, Ramsay Healthcare, Hastings Diversified Fund and GWA International, whilst Energy Developments and Metcash disappointed.

Corporate Express rallied late in the quarter following a takeover bid from their US parent Staples Inc. Staples have bid \$5.60 cash for the shares they do not own in the company; this consideration includes a fully franked dividend of 78c (subject to ATO approval). The bid has been recommended by the Board and represents an attractive exit for the Fund. Ramsay Healthcare gained 30% over the quarter, following its acquisition of a controlling 57% in French hospital operator Groupe Proclif SAS for \$142million and a stronger than expected first half result. Proclif is a leading private hospital operator in Paris and Ramsay's interest in the company provides it with a meaningful entry point into the French market. The French market is an attractive one due to its ageing population and stable and supportive regulatory environment.

Fund information

Sandhurst Professional IML Future Leaders Fund

Application	\$0.6243
Redemption	\$0.6212
ICR (% p.a.) as at 31 March 2010	1.30%
Fund start date	1 June 2006
Fund size as at 31 March 2010	\$2.35 Million

Fund Performance

Performance period	Fund Return*	Benchmark**
1 month	+2.7%	+6.7%
3 months	-1.2%	-1.5%
1 year	+40.1%	+49.6%
3 years [^]	-3.6%	-5.7%

[^] % 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 (excluding S&P/ASX 50, excluding property trusts).

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Companies in the Fund to report their first half results during the quarter included:

- Amalgamated Holdings which reported a first half result of \$76m, before one-off items. The result was up 35%. The company also announced an increased dividend of 14c, up from 11c. The standout performance was the company's German cinema operation which benefited from a strong local and overseas film line-up and higher admission prices on the back of 3D surcharges. The domestic cinema network also had a good result, up 17%.

- Salmat reported an interim NPAT of \$23.5m, up 22% on the pcp. The result was boosted by new business wins and margin expansion in the company's letterbox delivery business and the continued realisation of synergies from the HPAL acquisition. In light of the company's strong result and good cashflow generation the interim dividend was increased by 22% to 11c.

Goodman Fielder was added to the fund following its first half 2010 result, which was in line with expectations. The stock is attractively priced on a PE of 10 times FY2010 earnings and a yield of over 7%. The company is well positioned in staple goods markets with strong brands, such as Meadow Lea and Praise Mayonnaise, which ensures a degree of earnings certainty. With a reduced level of capital expenditure in future years we believe the company will generate higher returns on capital and a higher level of free cashflow. In addition the company is set to benefit from falling commodity prices, which have hampered profitability in recent years.

We still believe that that the economic recovery in Australia is likely to be more muted than many are expecting, as government stimulus is unwound and the impact of the increase in the cash rate is digested. This view is in line with the outlook many companies gave with their half year results. We remain cautious on the Resource sector as we believe many commodity prices such as copper and aluminium have strengthened significantly in the last nine months, despite stockpiles of these metals continuing to rise and as many governments withdraw some of the significant fiscal stimulus from last year. As such we continue to focus the portfolios predominantly towards the good quality companies that we believe can continue to do well despite the uncertain economic outlook.

Portfolio holdings

Portfolio	% of Fund
Amalgamated Holdings	6.56%
Ridley	4.24%
Metcash	4.12%
Energy Developments	4.12%
Salmat	4.06%
Sky City	4.03%
Spotless	3.82%
Cabcharge	3.64%
Hastings	3.09%
GrainCorp	3.00%
Top 10 Stocks	40.68%
Other Stocks	47.67%
Cash	11.65%
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 Professional IML Future Leaders 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. (PQWFLF1003)