

Sandhurst Professional IML Industrial Share Fund

Sharemarket commentary[#]

The Australian sharemarket had a reasonable year returning 13.1% overall and Industrials posting a 14.5 % return for the financial year. The stockmarket rallied from March 2009 through to January 2010, when the European sovereign debt situation began to weigh on markets, Greece being the initial focus. The situation worsened in the second half of the fiscal year, with ratings agencies downgrading Spain, Portugal and Hungary. The markets were also troubled by signs of weakening global growth expectations, with the focus on US and China. Australia's GDP increased 0.5% in Q1 2010. However, many companies warned of uncertainty in their outlook with the end of Government stimulus as well as 6 interest rate hikes by the RBA in eight months. The Federal Government's announcement of a Resources Super Profit Tax (RSPT) in May also weighed on the Australian sharemarket, although the compromise reached between the mining industry and the Government has lifted some of these concerns.

As a result of the many uncertainties, the Australian sharemarket declined 11.2%, representing the largest quarterly decline since Q4 2008. The Telco sector (+7.0%) was the only sector to record a positive return thanks to a bounce in Telstra's share price, while all other sectors posting negative returns with defensive sectors such as Consumer Staples (-4.6%), Utilities (-7.3%) and REITS (-2.8%) performing better than the overall markets as a rotation from cyclical to defensive sectors during the quarter was apparent. Financials were down by 16.4% as the major banks were all sold down heavily following their results in May and as concerns over funding costs and slower credit growth weighed on the sector.

In corporate news, AGL and Flight Centre guided the market to higher expected earnings for the financial year, while Brambles, Insurance Australia Group, Macquarie Group and Sonic Healthcare all downgraded their earnings expectations. M&A activity increased, with Lihir Gold accepting a takeover offer from Newcrest Mining. News Corporation made an offer for the 60% of BSKyB that it does not already own, which offer was rejected on the basis of valuation. Amcor reached agreement to purchase additional US packaging assets, while Mirvac announced a \$500 million raising to fund the acquisition of the Westpac Office Trust. The proposed takeover by NAB and AMP of AXA Asia-Pacific remains unresolved, while CSR and Fosters are both in the process of negotiating demergers.

Portfolio performance & summary[#]

The Fund finished the financial year with a gain of 14.5%, which was a good return and better than the benchmark. This is the second year in a row where our Fund has delivered better than benchmark returns for its investors. Over the June quarter the Fund posted a decline of 8.1% which while disappointing was significantly better than the 11.3% loss suffered by the benchmark. The Fund's performance over the last quarter of fiscal 2010 was supported by overweight positions in defensive stocks such as Telstra, Amcor, Metcash, APA Group, Ansell and Crown. The Fund also benefited from its underweighting to financials which performed poorly over the quarter.

Fund information

Sandhurst Professional IML Industrial Share Fund

Application (ex Distribution)	\$0.7762
Redemption (ex Distribution)	\$0.7723
June 2010 Distribution (per unit)	\$0.0202
ICR (% p.a.) as at 30 June 2010	1.30%
Fund start date	1 June 2006
Fund size as at 30 June 2010	\$5.29 Million

Fund Performance

Performance period	Fund Return*	Benchmark**
1 month	-1.1%	-3.2%
3 months	-8.1%	-11.3%
1 year	+14.5%	+14.5%
3 years [^]	-6.9%	-10.5%

[^] % 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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Metcash did well over the quarter, returning 12.8% following the announcement of strong full year financial results. Normalised net profit after tax was \$245 million, representing an increase of 8% on the prior year. The result was underpinned by continuing strength in the company's core IGA division, which distributes food to IGA and other independent grocery retailers. Importantly, Metcash was able to again grow sales in this division at a quicker pace than rivals Coles and Woolworths, and indeed increased its market share in the grocery sector to 20%. The company guided for EPS growth of 6%-8% in the next financial year, despite the slower retail and economic landscape and competition from Woolworths and Coles. Metcash remains attractively priced, offering fully franked dividend of over 6%. The company has a solid growth outlook, underpinned by the Mitre 10 acquisition as well as its recently announced purchase of Franklins' operations in Australia.

Amcor also did well over the quarter, rising 3.9%. Amcor's share price continues to perform well as investors remain comfortable that the company will be able to extract synergies from its US\$1.95bn acquisition of Alcan in February 2010. Also during the quarter, Amcor agreed to pay US\$280m for Ball Corporation's plastics packaging assets in America. Amcor should continue to perform reasonably well in the current uncertain environment, with its stable earnings supported by opportunities for operational improvement and industry consolidation.

With clear signs that the US economy is not recovering as quickly as previously expected, continued anecdotal evidence that China's growth is slowing and uncertainties over economic prospects in Europe, the previously held theory of a strong synchronised global economic recovery are now being revised by many investors. We remain focused on holding stocks that in our view are undervalued by the market and which in the main offer relatively defensive earnings, strong cash flows and favourable market positions.

Portfolio holdings

Portfolio	% of Fund
Westpac Banking Corporation	11.27%
Commonwealth Bank of Australia	8.81%
National Australia Bank Limited	7.04%
Telstra Corporation Limited	7.36%
Amcor Limited	5.26%
CSL Limited	4.59%
Crown Limited	3.82%
Woolworths	3.65%
Insurance Australia Group	3.29%
Amalgamated Holdings	2.78%
Top 10 Stocks	57.87%
Other Stocks	32.87%
Cash	9.26%
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 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. (PQWISF1006)