

Sandhurst Professional GVI Global Industrial Fund

Sharemarket commentary[#]

World equity markets, as measured by the MSCI World Accumulation Index (AUD Hedged) delivered double-digit gains over the September quarter of 15.0% on growing confidence that the global economy is improving and appears to be expanding again. Asia, including China and India, is driving the global recovery with strong economic growth supported by the stabilisation and modest recovery in the developed markets as record levels of stimulus packages have already started to take effect.

The US equity market (in local currency terms) rose 15.6% over the quarter as investors turned their attention to 2010 earnings with analysts announcing a series of upgrades on major US companies. The momentum in the market and improved sentiment was enhanced by Federal Reserve Chairman Ben Bernanke's statements that the US recession was probably over. However, economic releases on unemployment and manufacturing in late September did throw some cold water on the idea of a smooth and speedy recovery. It also signalled that the market had run well ahead of the economy and that the recovery is most likely to be weak and protracted, constrained by ongoing job losses, sluggish income growth, lower housing wealth and cuts in lending by banks.

The \$US continued with its fall against the major currencies and in fact has become a funding currency of choice for carry trades. This is placing downward pressure on the \$US as is the expanding US budget deficit. Predictably, oil and commodity prices moved in the opposite direction as Gold went beyond \$1,000 oz with oil prices rising above \$70 per barrel.

In Europe, the region overall grew by a solid 20.3% (in local currency terms) buoyed by the turnaround in economic activity and pick-up in export orders. The strongest performers over the quarter were Greece (+27.4%), Austria (+24.0), Belgium (+23.6%), Spain (+22.4%), and Italy and UK, both gaining 22.1%.

At the end of the quarter, the market was wavering between confidence and apprehension about economic growth and corporate earnings. More support was found for cyclical type stocks on the back of generally positive news leaving the more defensive stocks less supported. As a result, the Financials sector led the market over the quarter with a strong rise of 22.9%, followed by Industrial stocks (+16.8%), Materials (+15.5%), Consumer Discretionary (+14.4%) and IT (+14.4%). Solid gains were made by Consumer staples (+12.0%), Telcos (+11.4%), Healthcare (+11.1%), Energy (+10.8%) and Utilities (8.7%).

Portfolio performance & summary[#]

The Fund grew by a solid +9.4% over the September quarter while the overall market surged by 15.3%. Even though our financial stocks outperformed the sector as a whole, maintaining our defensive stance towards financials has contributed to the Fund lagging the benchmark in recent times. Similarly, our positioning in the utilities sector, more than double the benchmark weight, was also a drag on relative numbers. In absolute terms though, all sectors in the Fund delivered positive returns with our industrial holdings such as Deutsche Post, Daimler and Lufthansa leading the way with over 25% gains for the quarter.

Fund information

Sandhurst Professional GVI Global Industrial Fund

Application	\$0.8132
Redemption	\$0.8080
ICR (% p.a.) as at 30 September 2009	1.40%
Fund start date	1 June 2006
Fund size as at 30 September 2009	\$61.57 Million

Fund Performance

Performance period	Fund Return*	Benchmark**
1 month	+2.0%	+3.2%
3 months	+9.4%	+15.3%
6 months	+19.4%	+34.2%
1 year	-9.7%	-6.7%
3 years [^]	-5.8%	-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 MSCI World Accumulation Index (AUD) Hedged.

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Portfolio performance & summary[#]

In addition, specialty lubricant manufacturer Fuchs Petrolub, diversified chemicals company BASF and French media and telco business Vivendi, all provided strong returns for the Fund supported by solid increases by KPN Dutch telecom and Origin Energy.

Our financials holdings in Credit Agricole and BNP in France, HSBC and ICBC in Hong Kong posted very strong results over the quarter. Unlike the US and UK banks, French banks have weathered the crisis better than most by maintaining very liquid balance sheets and having diverse bank franchises. For example, Credit Agricole was a standout performer for the quarter as investors were drawn to its strong retail, life insurance and funds management operations that provide a solid and stable earnings stream. Even though banks in all regions have achieved a degree of stability in their capital positions and are enjoying growing confidence and higher asset prices, significant capital still needs to be raised and the earnings outlook is still quite uncertain given the muted growth outlook.

We have seen the telco holdings in the Fund start to keep pace with the overall market in recent weeks after lagging earlier in the year. In fact, they have significantly outperformed their sector over the quarter. TeliaSonera in Sweden, Spain's Telefónica (with strong operations in South America) along with Vodafone, provided very solid results over the quarter as investors started to realise the strong free-cash-flow generation and solid earnings generated by these businesses, even in difficult times. Flying under the radar are our utilities holdings from which we expect strong increases in cashflows after capital expenditure commitments peaking in 2008. E.on of Germany and GDF Suez in France rebounded strongly after reporting on important new initiatives which were well received by the market.

In the short term, we expect momentum in the market to continue and profit results, by and large, to exceed conservative guidance set by management. However, after two quarters of aggressive cost cutting that protected profit numbers, the market will expect an improvement in revenue and sales growth. While consensus numbers suggest a continued slump in sales, expectations are for earnings to rise around 30% in 2010. This would suggest that either revenue growth will bounce back sharply or there will be healthy improvements in margins, the absence of either would lead to some disappointment. In that event, we will be looking to add to existing positions and potentially adding other quality names to the portfolio that can deliver growing earnings and dividends over time.

Portfolio holdings

International Region Allocation	% of Fund
Europe	56.1%
North America	17.3%
Asia	9.7%
Cash (Australia)	11.7%
United Kingdom	5.2%
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.

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

The Sandhurst Professional GVI Global Industrial 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.
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