



SandhurstTrustees

Sandhurst Investment Term Fund

ARSN 090 908 660

Annual Report 2015

The responsible entity and issuer of Sandhurst Investment Common Fund is Sandhurst Trustees Limited ABN 16 004 030 737 AFSL No 237906
a subsidiary of Bendigo and Adelaide Bank Limited ('the Bank') ABN 11 068 049 178 AFSL No 237879

Issued by **Sandhurst Trustees**

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Directors' Report

The directors of Sandhurst Trustees Limited (the Responsible Entity), present this report, together with the financial statements of the Sandhurst Investment Term Fund (the Fund) for the year ended 30 September 2015.

Directors

The name of each person who has been a director of Sandhurst Trustees Limited, during the financial year and to the date of this report are:

Jennifer Lynn Dawson	(Chairman)
Ian George Mansbridge	
Marnie Ann Baker	
Antony David Robinson	
John Alexander Billington	(resigned 28 September 2015)
Bruce James Speirs	(appointed 10 November 2015)

Principal activity

The principal activity of the Fund during the year was to provide a fixed term investment with capital stability, competitive returns and a choice of investment terms and rates by investment of the Fund in a selected portfolio of Australian first registered mortgages and other interest rate securities.

No significant change in the nature of this activity occurred during the year.

Managed investment scheme

The Fund is a managed investment scheme registered by the Australian Securities and Investments Commission in accordance with the *Corporations Act 2001*. The Fund issued its first offer document on 3 October 1988.

Review of Results and Operations

Operating results	2015	2014
	\$'000	\$'000
Net profit attributable to investors for the year ended 30 September	6,252	6,373
Distributions to investors are paid out monthly, quarterly, half yearly or yearly	2015	2014
	\$'000	\$'000
Distributions paid or payable	6,252	6,373

Performance

The performance of the Fund during the periods are summarised in the following table.

Return (p.a.)	Current Anticipated Returns on maturity					
	3 Month	6 Month	1 year	3 year	4 year	5 year
	%	%	%	%	%	%
	2.60	2.70	2.75	2.95	3.00	3.25

The Fund was able to pay all anticipated returns as investments fell due through-out the year. The anticipated returns on new and maturing investments decreased throughout the year in line with decreases in market interest rates.

The Fund aims to maintain a higher allocation to commercial and residential mortgages. Impacting performance was the increase in the Funds exposure to lower yielding liquid assets, as a result of decreased mortgage growth and an increase in funds under management. The Fund invested in term deposits and Residential Mortgage Backed Securities throughout the year to reduce its exposure to lower yielding liquid assets.

Total assets	2015	2014
	\$	\$
Value of total Fund assets	207,646,046	159,098,846

Significant changes in state of affairs

Effective the 23rd July 2015, Sandhurst Investment Common Fund changed its name to the Sandhurst Investment Term Fund. There was no change in the Fund's portfolio, investment objective or strategy. Other than the fund name change noted above, there has been no significant changes in the Fund's state of affairs during the year.

Significant events after the reporting date

There has been no matter or circumstance that has arisen since the end of the financial year that significantly affected, or may affect, the Fund's operation in future financial years, the results of those operations or the Fund's state of affairs in future financial years.

Directors' Report (continued)

Likely developments and expected results

The Fund intends to continue to invest in accordance with its investment strategy.

Options

No options over interests in the Fund were granted during or since the end of the year and there were no options outstanding at the date of this report.

Indemnities and insurance premiums for officers or auditors

Under the Fund's constitution, the Responsible Entity, including its officers and employees, is indemnified out of the Fund's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Fund.

The Fund has not indemnified any auditor of the Fund.

During the financial year the Responsible Entity paid a premium under a contract insuring each director and officer of the Responsible Entity against liability and legal expenses incurred in their respective capacities. Such insurance contracts insure against certain liability (subject to specified exclusions) for persons who are or have been directors of the Responsible Entity or executive officers of the Responsible Entity.

Disclosure of the nature of the liability and the amount of the premium is prohibited by the confidentiality clause of the contract of insurance. The Responsible Entity has not provided any insurance to a related body corporate or to an auditor of the Responsible Entity.

Proceedings on behalf of the fund

No person has applied for leave of court to bring proceedings on behalf of the Fund or intervene in any proceedings to which the Fund is a party for the purpose of taking responsibility on behalf of the Fund for all or any part of those proceedings.

The Fund was not a party to any such proceedings during the year.

Environmental regulation and expected results

The operations of the Fund are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Fund.

Rounding

The amounts contained in the Financial Report and the Directors' Report have been rounded off under ASIC Class Order 98/100. The Fund is an entity to which the Class Order applies, and in accordance with that Class Order, amounts in the Directors' Report and the financial report have been rounded to the nearest thousand dollars (where rounding is appropriate).

Fees paid to and interests held by the Responsible Entity and Associates

For details of any interests the Responsible Entity and its associates may hold in the Fund, refer to Note 12(c) – Related party disclosures of the Notes to the Financial Statements.

The following fees were payable to Sandhurst Trustees Limited and its associates out of the Fund during the financial year:

	2015	2014
	\$	\$
Management fees paid/payable to the Responsible Entity	1,770,945	1,801,107

Auditor's Independence Declaration

A copy of the auditor's independence declaration is set out on the following page.

Signed in accordance with a resolution of the board of directors.



Jennifer L Dawson
 Chairman
 7 December 2015



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Auditor's Independence Declaration to the Directors of Sandhurst Trustees Limited, as Responsible Entity for the Sandhurst Investment Term Fund

In relation to our audit of the financial report of Sandhurst Investment Term Fund for the financial year ended 30 September 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

John MacDonald
Partner
Melbourne
7 December 2015

Statement of Comprehensive Income
For the year ended 30 September 2015

	Note	2015 \$'000	2014 \$'000
Income			
Interest revenue			
Mortgage loans		6,787	7,938
Bank accepted bills		-	62
Negotiable certificates of deposit		1,032	838
Term deposit		331	94
Residential mortgage backed securities		397	47
Other interest bearing deposits		163	159
Other income		<u>90</u>	<u>88</u>
		<u>8,800</u>	<u>9,226</u>
Expenses			
Management fee	12(c)	(1,771)	(1,801)
Loan originator management fees		(722)	(924)
Audit fees	13	(17)	(16)
Loan loss expense		-	(55)
Other expenses		<u>(38)</u>	<u>(57)</u>
		<u>(2,548)</u>	<u>(2,853)</u>
Net profit attributable to Investors (before finance costs)		6,252	6,373
Finance Costs			
Distributions to investors paid/payable		<u>(6,252)</u>	<u>(6,373)</u>
Net profit/(loss) attributable to Investors		-	-
Net gain/(loss) on cash flow hedges		<u>(453)</u>	<u>494</u>
Change in net assets attributable to investors		<u>(453)</u>	<u>494</u>

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes to the financial statements.

Statement of Financial Position
As at 30 September 2015

	Note	2015 \$'000	2014 \$'000
Assets			
Cash and cash equivalents	3	55,181	29,858
Receivables	4	290	179
Investments	5	152,125	129,052
Derivatives		<u>50</u>	<u>10</u>
Total Assets		<u>207,646</u>	<u>159,099</u>
Liabilities			
Payables	6	155	59
Distribution payable	6	321	764
Derivatives	5	<u>640</u>	<u>147</u>
Total Liabilities		<u>1,116</u>	<u>970</u>
(excluding Net Assets attributable to Investors)			
Net Assets attributable to Investors (Liability)		<u>206,530</u>	<u>158,129</u>
Represented by:			
Investors funds		207,120	158,266
Cash flow hedge reserve	14	<u>(590)</u>	<u>(137)</u>
Net Assets attributable to Investors (Liability)		<u>206,530</u>	<u>158,129</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes to the financial statements.

Statement of Changes in Net Assets Attributable to Investors
For the year ended 30 September 2015

	Note	2015 \$'000	2014 \$'000
Opening balance		158,266	181,730
Net profit attributable to Investors (before finance costs)		6,252	6,373
Applications		134,323	54,137
Redemptions		(85,469)	(77,601)
Distribution to Investors paid/payable		<u>(6,252)</u>	<u>(6,373)</u>
Closing balance		207,120	158,266
Cash flow hedge reserve	14	<u>(590)</u>	<u>(137)</u>
Net assets attributable to investors		<u>206,530</u>	<u>158,129</u>

The above Statement of Changes in Net Assets Attributable to Investors should be read in conjunction with the accompanying notes to the financial statements.

Statement of Cash Flows
For the year ended 30 September 2015

	Note	2015 \$'000	2014 \$'000
Cash flows from operating activities			
Interest received		8,634	9,037
Management fee		(1,772)	(1,797)
Other income		90	88
Other expenses		<u>(715)</u>	<u>(1,045)</u>
Net cash provided by operating activities	7(c)	<u>6,237</u>	<u>6,283</u>
Cash flows from investing activities			
Net sales of investment securities		(28,236)	(4,641)
Mortgage loans repaid		<u>5,163</u>	<u>12,272</u>
Net cash provided by/(used in) investing activities		<u>(23,073)</u>	<u>7,631</u>
Cash flows from financing activities			
Proceeds from applications by investors		134,323	54,137
Payments for redemptions by investors		(85,469)	(77,601)
Distributions paid to investors		<u>(6,695)</u>	<u>(8,417)</u>
Net cash provided by/(used in) financing activities		<u>42,159</u>	<u>(31,881)</u>
Net increase/(decrease) in cash held		25,323	(17,967)
Cash at the beginning of the financial year		<u>29,858</u>	<u>47,825</u>
Cash at the end of the financial year	7(a)	<u>55,181</u>	<u>29,858</u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes to the financial statements.

Notes to the Financial Statements

1. Corporate information

The financial report of the Fund for the year ended 30 September 2015 was authorised for issue in accordance with a resolution of the directors of the Responsible Entity on 7 December 2015.

The Fund is constituted by deed (the Constitution) dated 12 October 1992, as amended. Sandhurst Trustees Limited, the Responsible Entity of the Fund, is incorporated and domiciled in Australia. The nature of operations and principal activities of the Fund are described in the Directors' Report.

2. Summary of significant accounting policies

(a) Basis of preparation of the financial report

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on the basis of historical costs, except for the valuation of financial instruments, with details of measurement provided below.

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. Additional information regarding this is included in the relevant notes.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Fund under ASIC Class Order 98/100. The Fund is an entity to which the Class Order applies (where rounding is appropriate).

The Fund is a for-profit entity for the purpose of preparing financial statements.

(b) Statement of compliance

The financial reporting complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.

(c) Financial instruments

(i) Classification

The Fund classifies its financial assets and financial liabilities into the categories below in accordance with AASB 139.

(a) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Fund's intention to hold these investments to maturity. Held-to-maturity investments include Residential Mortgage Backed Securities ("RMBS") & term deposits held by the Fund. These investments are not classified as "available for sale" investments as sufficient funds are held on 11am account to meet day-to-day financing needs, therefore in normal circumstances these investments are not sold prior to maturity.

(b) Loans and advances

All mortgage loan investments held by the Fund are classified as "Loans and Advances".

(ii) Recognition

The Fund recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date i.e. the date that the Fund commits to purchase or sell the asset.

(iii) Derecognition

Derecognition occurs when the Fund transfers a financial asset and is no longer exposed to substantially all of the risks and rewards of the asset. Where the Fund neither retains nor transfers substantially all of the risks and rewards of the financial asset, derecognition occurs when the Fund no longer controls the asset.

(iv) Initial measurement and subsequent measurement

(a) Held-to-maturity investments

Held-to-maturity investments are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the Statement of Comprehensive Income when the investments are derecognised or impaired, as well as through the amortisation process. Carrying value of these assets approximates fair value.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instruments but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

(b) Loans and advances

These investments are initially recorded at fair value on recognition and are then measured at amortised cost using the effective interest method, with interest and impairment costs being recognised in the Statement of Comprehensive Income.

Loans are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If evidence of impairment exists, an impairment loss is recognised in the Statement of Comprehensive Income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If, in a subsequent period, the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the Statement of Comprehensive Income.

The Fund assesses loan impairment losses on a specific basis. Specific loan provisions are recognised in situations where, following an assessment of the individual facility, there is objective evidence that a loan is impaired.

(d) Derivative financial instruments and hedging

The Fund uses derivative financial instruments to hedge interest rate risk (including forward exchange contracts and interest rate swap contracts). Such derivative financial instruments are recorded at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability, or
- cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction. The Fund currently has cash flow hedges attributable to payment of interest on borrowings.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

(i) Fair value hedges

For fair value hedges, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the Statement of Comprehensive Income. Any gain or loss attributable to the hedged risk on remeasurement of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the Statement of Comprehensive Income. Where the adjustment is to the carrying amount of a hedged interest-bearing financial instrument, the adjustment is amortised to the Statement of Comprehensive Income such that it is fully amortised by maturity.

(ii) Cash flow hedges

For cash flow hedges, to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in net assets attributable to investors ("equity") and the ineffective portion is recognised in the Statement of Comprehensive Income.

When the hedged firm commitment results in the recognition of an asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the Statement of Comprehensive Income in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the Statement of Comprehensive Income for the year.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity (net assets attributable to investors) is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Statement of Comprehensive Income for the year.

(e) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents, in the Statement of Financial Position comprise cash on hand, demand deposits, short term deposits in banks and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Interest revenue

Interest revenue on cash deposits, Negotiable Certificates of Deposit and Bank Accepted Bills is recognised on an accrual basis, using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

(g) Receivables

Receivables are recognised and carried at the nominal amount, less a provision for any uncollectible debts. All receivables are non-interest bearing and are generally received within 30 or 90 days of being recorded as receivables.

(h) Payables

Payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Fund. Payables are non-interest bearing and include outstanding settlements on the purchase of investments and the distribution payable. The carrying period is dictated by market conditions and is generally less than 30 days.

(i) Distributions paid /payable

In accordance with the Fund's Constitution, the Fund fully distributes its distributable income to investors. Distributions are payable at the end of each quarter. Such distributions are determined by reference to the taxable income of the Fund. Distributions to investors are recognised in the Statement of Comprehensive Income as finance costs.

(j) Income tax

Under current legislation, the Fund is not subject to income tax provided the investors are presently entitled to the income of the Fund and the Fund fully distributes its net taxable income.

(k) Goods and services tax (GST)

Income, expenses and assets, with the exception of receivables and payables, are recognised net of the amount of GST to the extent that the GST is recoverable from the taxation authority. Where GST is not recoverable, it is recognised as part of the cost of acquisition of the asset or part of the expense item as applicable.

Expenses incurred by the Fund are recognised net of the amount of GST which is able to be recovered from the Australian Taxation Office (ATO). Reduced input tax credits (RITC) recoverable by the Fund from the ATO are recognised as receivables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(l) Significant accounting judgments and estimates

Management has made the following judgements involving estimations, which have the most significant effects on the amounts recognised in the financial statements:

(i) Loan provisioning

Management determines whether loans are impaired on an ongoing basis. This requires an estimation of the value of future cash flows. The accounting policy for the calculation of loan impairment losses is disclosed in Note 2(c).

(ii) Assessment as investment entity

Management has concluded that the Fund meets the definition of an investment entity. These conclusions will be reassessed on an annual basis, if any of these criteria or characteristics changes.

(m) Functional and presentation currency

The Fund's functional and presentation currency is the Australian Dollar, which is the currency of the primary economic environment in which it operates. The Fund's performance is evaluated and its liquidity is managed in Australian Dollars. Therefore, the Australian Dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

(n) Capital Management

The Responsible Entity manages its net assets attributable to investors as capital; not withstanding net asset attributable to investors is classified as a liability. The amount of net asset attributable to investors can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of investors.

The Responsible Entity monitors the level of daily applications and redemptions relative to the liquid assets in the Fund.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

(o) Application of accounting standards

Australian Accounting Standards that have recently been issued but are not yet effective have not been adopted for the annual reporting period ending 30 September 2015.

AASB Amendment/ Standard	Title	Nature of change to accounting policy	Application date of Standard
AASB 9	Financial Instruments	AASB 9 as issued reflects the first phase of the AASB's work on the replacement of AASB 139 and applies to classification and measurement of financial assets and financial liabilities as defined in AASB 139. It is not anticipated that adoption of AASB 9 will have a significant impact on the Fund. The Fund is not early adopting this Standard and intends to perform a full impact assessment at application date.	1 July 2018

(p) Changes in Accounting Policies

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Fund's annual financial statements for the year ended 30 September 2014.

	2015 \$'000	2014 \$'000
3. Cash and cash equivalents		
Cash at bank	260	3,328
11AM call deposits	6,116	6,065
Treasury settlement account	(533)	103
Negotiable certificates of deposit	<u>49,338</u>	<u>20,362</u>
	<u>55,181</u>	<u>29,858</u>

4. Receivables

Sundry debtors	235	118
Accrued interest	55	61
	<u>290</u>	<u>179</u>

The Fund has no significant concentration of credit risk with respect of any single counterparty or group of counterparties. All receivables are not past due 30 days and are not impaired.

	2015 \$'000	2014 \$'000
5. Investments		
<i>Held to Maturity</i>		
RMBS	19,246	1,024
Term deposits	14,914	4,900
<i>Loans and Advances</i>		
Mortgage loans	<u>117,965</u>	<u>123,128</u>
	<u>152,125</u>	<u>129,052</u>

Loan loss provision reconciliation

Opening balance	-	-
Charge for the year	-	55
Loan loss utilised	-	(55)
Closing balance	<u>-</u>	<u>-</u>

Maturity analysis - investment securities

At call	-	-
Not longer than 3 months	2,736	400
Longer than 3 months and not longer than 12 months	7,738	-
Longer than 1 year and not longer than 5 years	19,885	4,500
Longer than 5 years	3,801	1,024
	<u>34,160</u>	<u>5,924</u>

Maturity analysis - mortgage loans

At call	-	-
Not longer than 3 months	8,718	-
Longer than 3 months and not longer than 12 months	15,838	20,001
Longer than 1 year and not longer than 5 years	78,605	84,525
Longer than 5 years	14,804	18,602
	<u>117,965</u>	<u>123,128</u>

Maturity analysis is based on contracted maturity date of each investment security or mortgage loan.

Notes to the Financial Statements (continued)

5. Investments (continued)

Loans in arrears analysis

30-60 days	-	-
60-90 days	-	-
Loans past 90 days	-	-
	<u> </u>	<u> </u>
% of loans	0.00%	0.00%

Fair values

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 30 September 2015.

	Carrying amount \$'000	Fair value \$'000
Financial assets:		
RMBS	19,246	19,246
Term deposits	14,914	14,914
Loans and advances	117,965	125,002
Total	<u>152,125</u>	<u>159,162</u>
Financial liabilities:		
Derivatives	640	640
Total	<u>640</u>	<u>640</u>

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 30 September 2014.

Financial assets:		
RMBS	1,024	1,024
Term deposits	4,900	4,900
Mortgage loans	123,128	129,233
Total	<u>129,052</u>	<u>135,157</u>
Financial liabilities:		
Derivatives	147	147
Total	<u>147</u>	<u>147</u>

Fair Value Financial Instruments

The Fund uses various methods in estimating the fair value of financial instrument. The methods comprise of:

- Level 1 - The fair value is calculated using quoted prices in active markets.
- Level 2 - The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (derived from prices).
- Level 3 - The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

	Quoted market price Level 1 \$'000	Valuation technique - market observable inputs Level 2 \$'000	Valuation technique - non market observable inputs Level 3 \$'000	Total \$'000
As at 30 September 2015				
Financial assets				
Financial assets - held to maturity	-	34,160	-	34,160
Loans and advances	-	-	125,002	125,002
Derivatives	-	50	-	50
	<u> </u>	<u>34,210</u>	<u>125,002</u>	<u>159,212</u>
Financial liabilities				
Derivatives	-	640	-	640
	<u> </u>	<u>640</u>	<u> </u>	<u>640</u>
As at 30 September 2014				
Financial assets				
Financial assets - held to maturity	-	5,924	-	5,924
Loans and advances	-	-	129,233	129,233
Derivatives	-	10	-	10
	<u> </u>	<u>5,934</u>	<u>129,233</u>	<u>135,167</u>
Financial liabilities				
Derivatives	-	147	-	147
	<u> </u>	<u>147</u>	<u> </u>	<u>147</u>

Notes to the Financial Statements (continued)

5. Investments (continued)

Valuation technique

Held-to-maturity investments

The fair value of financial assets held to maturity including Residential Mortgage Backed Securities ("RMBS") & term deposits which are predominately fixed long-term, is measured at amortised book value. Carrying value of these assets approximates fair value.

Loans and advances

The carrying value of loans and advances is net of specific provisions for doubtful debts. These investments are initially recorded at fair value on recognition and are then measured at amortised cost using the effective interest method, with interest and impairment costs being recognised in the Statement of Comprehensive Income. The fair value of loans are calculated by utilising discounted cash flow models based on the maturity of the loans held by the Fund.

Derivatives

Where the Fund's derivative assets and liabilities are not traded on an exchange, they are value using valuation methodologies, including discounted cash flow and option pricing models as appropriate. The most significant inputs into the valuations are interest rate yields which are developed from publicly quoted rates.

The Fund recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between levels during the year ended 30 September 2015.

	2015 \$'000	2014 \$'000
6. Payables		
Distribution payable	321	764
Sundry creditors and accrued expenses	155	59
	476	823

7. Notes to the statement of cash flows

(a) Reconciliation of cash

Cash at bank	260	3,328
11AM call deposits	6,116	6,065
Treasury settlement account	(533)	103
Negotiable certificates of deposit	49,338	20,362
	55,181	29,858

(b) Cash flows presented on a net basis

Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:

- (i) sales and purchases of dealing investments; and
- (ii) mortgage loans advanced and repaid.

(c) Reconciliation of changes in net assets attributable to investors to net cash provided by operating activities

Changes in net assets attributable to investors	(453)	494
Distributions to investors paid/payable	6,252	6,373
Net gain on cash flow hedges	453	(494)
Increase in receivables	(111)	(61)
Decrease in sundry creditors and accrued expenses	96	(29)
Net cash provided by operating activities	6,237	6,283

(d) Non-cash financing and investing activities

During the financial year no non-cash financing and investing activities occurred.

Notes to the Financial Statements (continued)

8. Financial risk management

Risks arising from holding financial instruments are inherent in the Fund's activities and are managed through a process of ongoing identification, measurement and monitoring. The Fund has exposure to credit risk, liquidity risk and market risk from its use of financial instruments.

This note presents information about the Fund's exposure to each of these risks, its objectives, policies and processes for measuring and managing risk.

Financial instruments of the Fund comprise investments in financial assets for the purpose of generating a return on the investment made by investors.

The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

The total of each category of financial instrument measured in accordance with AASB 139 as detailed in the accounting policies to the financial statements are as follows:

	2015 \$'000	2014 \$'000
Financial Assets		
Cash and cash equivalents	55,181	29,858
Receivables	290	179
Held to maturity investments	34,160	5,924
Loans and Advances	117,965	123,128
Derivatives	50	10
Total financial assets	<u>207,646</u>	<u>159,099</u>
Financial Liabilities		
Payables	155	59
Distribution payable	321	764
Derivatives	640	147
Net Assets attributable to Investors	<u>206,530</u>	<u>158,129</u>
Total financial liabilities	<u>207,646</u>	<u>159,099</u>

(a) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts, as disclosed in the Statement of Financial Position and Notes to the Financial Statements. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values. The Fund minimises its exposure to credit risk on derivatives by only trading with credit graded financial institutions and has limits on the level of instruments that it holds with each counterparty.

The Fund's exposure to credit risk is limited to Australia by geographic area. The Fund does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Fund. The largest single borrower in the Fund represents 4% of total assets. (2014: 6%).

Credit risk is not considered to be significant to the Fund except in relation to investments in mortgage loans. Mortgage credit risk is managed by having in place strict lending criteria including ensuring appropriate security is in place to endeavour to cover potential mortgage defaults.

(b) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its short-term payment commitments.

Mortgage loans are relatively illiquid compared to some other assets classes and delays may occur in converting these investments into cash. This may affect distributions and/or redemptions to investors. The Responsible Entity minimises liquidity risk by holding a percentage of the total assets of the Fund in liquid investments, such as Cash and Negotiable Certificates of Deposit. The Funds policy is to hold a minimum of 10% of assets in liquid investments. Quarterly and annual cashflow forecasting is also used to help monitor future cash flow requirements. Short-term borrowings may also be used by the Fund to meet short-term cash flow commitments.

(i) Maturity analysis of financial liabilities

Financial liabilities of the Fund comprise sundry creditors and accrued expenses and net assets attributable to investors. All sundry creditors and accrued expenses have no contractual maturities but are normally settled on commercial 30 day terms.

All sundry creditors and accrued expenses have no contractual maturities but are normally settled on commercial 30 day terms.

Notes to the Financial Statements (continued)

8. Financial risk management (continued)

(b) Liquidity risk (continued)

(i) Maturity analysis of financial liabilities (continued)

There is a risk that redemption proceeds will not be paid within a reasonable period after the initial investment term. The Responsible Entity shall satisfy redemption requests as soon as practicable (generally within 48 hours, but not more than 12 months under the constitution). However, redemption requests may be delayed or refused if in the Responsible Entity's reasonable opinion it is in the best interests of investors as a whole to do so. Investors will only have limited rights to redeem if the Fund does not satisfy the liquidity test in the Corporations Act 2001.

As at 30 September 2015	Less than 1 month \$'000	1 to 3 months \$'000	4 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	Total \$'000
Financial Assets						
Cash and cash equivalents	18,326	36,855	-	-	-	55,181
Receivables	290	-	-	-	-	290
Held to Maturity	-	2,736	7,738	19,885	3,801	34,160
Loans and Advances	46,543	4,290	13,820	53,312	-	117,965
Derivatives	50	-	-	-	-	50
Total Financial Assets	65,209	43,881	21,558	73,197	3,801	207,646
Financial Liabilities						
Payables	155	-	-	-	-	155
Derivatives*	50	2	20	568	-	640
Distribution payable	321	-	-	-	-	321
Net Assets attributable to Investors	7,590	54,600	114,194	30,146	-	206,530
Total Financial Liabilities	8,116	54,602	114,214	30,714	-	207,646
Net (outflow)/inflow on financial instruments	57,093	(10,721)	(92,656)	42,483	3,801	-

*Notional amount of derivatives

1,000	800	6,100	51,639	-	59,539
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As at 30 September 2014

Financial Assets

Cash and cash equivalents	11,492	6,971	11,395	-	-	29,858
Receivables	179	-	-	-	-	179
Held to Maturity	400	-	4,500	-	1,024	5,924
Loans and advances	49,999	7,944	27,180	35,894	2,111	123,128
Derivatives	10	-	-	-	-	10
Total Financial Assets	62,080	14,915	43,075	35,894	3,135	159,099

Financial Liabilities

Payables	59	-	-	-	-	59
Distribution payable	10	13	50	74	-	147
Derivatives*	764	-	-	-	-	764
Net Assets attributable to Investors	11,098	54,812	71,027	21,192	-	158,129
Total Financial Liabilities	11,931	54,825	71,077	21,266	-	159,099
Net (outflow)/inflow on financial instruments	50,149	(39,910)	(28,002)	14,628	3,135	-

*Notional amount of derivatives

3,600	5,610	9,980	30,100	-	49,290
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(c) Market risk

Market risk is the risk that market prices, such as interest rates and property prices, will affect the Fund's income or its holdings of financial instruments. Market risk relates to the performance of the market as a whole impacting on the Fund's investment returns. Factors that can influence the market include economic, technological, political, taxation and legal conditions and even market sentiment. Changes in such conditions can affect the ability of a borrower to repay a loan, the value of property held as security or the value of fixed interest securities, which in turn may impact the value and return of the Fund.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters. The Responsible Entity attempts to minimise market risk ensuring the investment portfolio has a short duration, is well diversified and is managed within designated parameters and policies.

Notes to the Financial Statements (continued)

8. Financial risk management (continued)

(i) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the values of financial instruments.

The table below summarises the Fund's exposure to interest rate risks at the reporting date before hedging. It includes the Fund's assets and liabilities categorised by the repricing periods. The mismatch in the period of pricing assets and liabilities is managed as part of the overall asset and liability management process.

As at 30 September 2015	Floating interest rate \$'000	Fixed interest rate				Non-interest bearing \$'000	Total \$'000
		Less than 1 month \$'000	1 to 3 months \$'000	4 to 12 months \$'000	Over 12 months \$'000		
Financial Assets							
Cash and cash equivalents	5,844	12,482	36,855	-	-	-	55,181
Trade and other receivables	-	-	-	-	-	290	290
Held to Maturity	19,246	-	2,736	7,738	4,440	-	34,160
Loans and advances	51,966	1,311	3,796	12,101	48,791	-	117,965
Derivatives	-	-	-	-	-	50	50
Total Financial Assets	77,056	13,793	43,387	19,839	53,231	340	207,646
Financial Liabilities							
Trade and other payables	-	-	-	-	-	155	155
Distribution payable	-	-	-	-	-	321	321
Derivatives	-	-	-	-	-	640	640
Net assets attributable to Investors	206,530	-	-	-	-	-	206,530
Total Financial Liabilities	206,530	-	-	-	-	1,116	207,646
As at 30 September 2014							
Financial Assets							
Cash and cash equivalents	9,496	1,996	6,971	11,395	-	-	29,858
Trade and other receivables	-	-	-	-	-	179	179
Held to Maturity	1,024	400	-	4,500	-	-	5,924
Loans and advances	29,367	25,821	7,944	25,941	34,055	-	123,128
Derivatives	-	-	-	-	-	10	10
Total Financial Assets	39,887	28,217	14,915	41,836	34,055	189	159,099
Financial Liabilities							
Trade and other payables	-	-	-	-	-	59	59
Distribution payable	-	-	-	-	-	764	764
Derivatives	-	-	-	-	-	147	147
Net assets attributable to Investors	158,129	-	-	-	-	-	158,129
Total Financial Liabilities	158,129	-	-	-	-	970	159,099

As at 30 September 2015 hedged cash flows are expected to occur and affect the income statement as follows:

2015	Within 1 year \$'000	1 to 3 years \$'000	3 to 8 years \$'000	Over 8 years \$'000	Total \$'000
	Cash inflows (Assets)	993	768	251	-
Cash outflows (Liabilities)	(1,242)	(1,392)	(290)	-	(2,924)
Net cash inflow	(249)	(624)	(39)	-	(912)
Income Statement	(159)	(296)	(57)	-	(512)
2014					
Cash inflows (Assets)	1,090	1,132	-	-	2,222
Cash outflows (Liabilities)	(1,303)	(1,495)	(68)	-	(2,866)
Net cash inflow	(213)	(363)	(68)	-	(644)
Income Statement	(127)	(85)	-	-	(212)

Notes to the Financial Statements (continued)

8. Financial risk management (continued)

(ii) Interest rate sensitivity analysis - held to maturity investments

A reasonably possible change (assumed to be 100 basis points) in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis takes into account the periodic repricing of the investments (projected forward one year) once they mature and assumes that all other variables remain constant as at 30 September 2015. The analysis is performed on the same basis for 2014.

	Profit or loss \$'000	Equity \$'000
30 September 2015		
100 basis points increase	698	698
100 basis points decrease	(698)	(698)
30 September 2014		
100 basis points increase	238	238
100 basis points decrease	(238)	(238)

(iii) Interest rate sensitivity analysis - loans and advances (including hedging)

A reasonably possible change (assumed to be 100 basis points) in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis takes into account the periodic repricing of the loan terms (projected forward one year) based on the yield curve as at 30 September 2015, and assumes that all other variables remain constant. The analysis is performed on the same basis for 2014.

In practice, the actual results may differ from the above sensitivity analysis and the difference could be significant.

	Profit or loss \$'000	Equity \$'000
30 September 2015		
100 basis points increase	695	695
100 basis points decrease	(695)	(695)
30 September 2014		
100 basis points increase	611	611
100 basis points decrease	(611)	(611)

Notes to the Financial Statements (continued)

9. Segment information

The Fund invests in a range of Australian first registered mortgages, Bank Accepted Bills, Negotiable Certificates of Deposit, term deposits, residential mortgage backed securities and cash. All investments are domiciled in Australia.

10. Contingent assets and liabilities

No material contingent assets or liabilities existed at, or have arisen since, balance date.

11. Significant events after balance date

There have been no significant events that have occurred since balance date which would impact on the financial position of the Fund as disclosed in the Statement of Financial Position as at 30 September 2015 and the results of the Statement of Comprehensive Income and Statement of Cash Flows of the Fund for the year ended on that date.

12. Director and executive disclosures

(a) Responsible Entity

The Responsible Entity of the Fund is Sandhurst Trustees Limited (Sandhurst).

The controlling entity of Sandhurst is Bendigo and Adelaide Bank Limited (ABN 11 068 049 178).

(b) Details of key management personnel

(i) Directors

The directors of Sandhurst Trustees Limited are considered to be Key Management Personnel of the Fund. The directors of Sandhurst Trustees Limited during the financial year and up to the date of this report are:

Jennifer Lynn Dawson	(Chairman)
Ian George Mansbridge	
Marnie Ann Baker	
Antony David Robinson	
John Alexander Billington	(resigned 28 September 2015)
Bruce James Speirs	(appointed 10 November 2015)

Directors, officers and employees of the Responsible Entity and related body corporate may hold units in the Fund. Such transactions are completed on an arms length basis.

(ii) Other Key Management Personnel

In addition to the directors noted above, Sandhurst Trustees Limited, the Responsible Entity of the Fund, is considered to be Key Management Personnel with the authority for the strategic direction and management of the Fund.

(iii) Compensation of Key Management Personnel

No amount is paid by the Fund directly to the directors of the Responsible Entity. Consequently, no compensation as defined in AASB 124 "Related Party Disclosures" is paid by the Fund to the directors as Key Management Personnel.

Notes to the Financial Statements (continued)

12. Director and executive disclosures (continued)

(c) Related party disclosures

	2015	2014
(i) Fees	\$	\$
Trustee management/administration fees paid/payable to Sandhurst Trustees Limited as the Responsible Entity in accordance with the provisions of the Fund's Constitution	1,770,945	1,801,107
As part its asset acquisition strategy, the Fund may purchase via equitable assignment mortgage loans from time to time from Bendigo and Adelaide Bank Limited. Management fees paid/payable to Bendigo and Adelaide Bank Limited for loan management services for the year ended 30 September 2015	78,831	100,219
Loans, shares, options and other equity holdings to directors of the Responsible Entity	Nil	Nil
Deposits with the Bendigo and Adelaide bank on normal commercial terms and conditions	15,825,671	16,274,977
Loan origination fees paid/payable to Bendigo and Adelaide Bank Limited for the financial year. For accounting purposes, these originations are capitalised and amortised over a 3 year period	Nil	Nil
Loan origination management fees and commissions paid/payable to National Mortgage Market Corporation Limited (ABN 52 006 325 640), a wholly owned subsidiary of Bendigo and Adelaide Bank Limited, for the year ended 30 September 2015	156,583	182,240

(ii) Other related party disclosures

As at reporting date, the Responsible Entity held these investments in the Fund Nil Nil

All related party transactions are made in arms length transactions on normal commercial terms and conditions.

13. Auditors' remuneration

	2015	2014
Amounts received, or due and receivable by the auditors for:	\$	\$
Audit and review services	16,467	16,146

14. Cash flow hedge reserve

(a) Nature and purpose

The cash flow hedge reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

	2015	2014
(b) Movements	\$'000	\$'000
Opening balance	(137)	(631)
Net gain/(loss) on cash flow hedges	(453)	494
Closing balance	(590)	(137)

Directors' declaration

The directors of the Responsible Entity declare that:

- (a) the financial statements and notes of the Fund are in accordance with the *Corporations Act 2001* (Cth), including:
 - (i) giving a true and fair view of the financial position of the Fund as at 30 September 2015 and its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* (Cth);
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;
- (c) the financial statements are in accordance with the provisions of the Fund's Constitution; and
- (d) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

This declaration is made in accordance with a resolution of the board of directors of the Responsible Entity.



Jennifer L Dawson
Chairman
7 December 2015

Independent auditor's report

We have audited the accompanying financial report of Sandhurst Investment Term Fund which comprises the statement of financial position as at 30 September 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of Sandhurst Trustees Limited, as Responsible Entity of the Fund, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(b), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

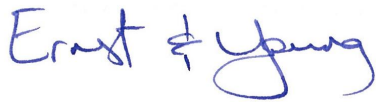
Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

- a. the financial report of Sandhurst Investment Term Fund is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of Sandhurst Investment Term Fund's financial position as at 30 September 2015 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(b).



Ernst & Young



John MacDonald
Partner
Melbourne
7 December 2015



Proudly part of  **Bendigo and
Adelaide Bank**

(S53748-2) (11/15)

 **Sandhurst Trustees**