Bendigo Managed Wholesale Funds
Index Funds

SandhurstTrustees

Quarterly fund update - September 2018

Investment approach

Each Fund invests via a selection of index funds that seek to track the performance of selected benchmarks for each asset class. Each Fund's investment portfolio is constructed in a manner that Sandhurst believes will meet the investment return objective of each Fund. Each Fund aims to provide a total return after fees in excess of a stated percentage above inflation over a full market cycle (typically 7 to 10 years), where inflation is measured by the Australian Consumer Price Index (CPI).

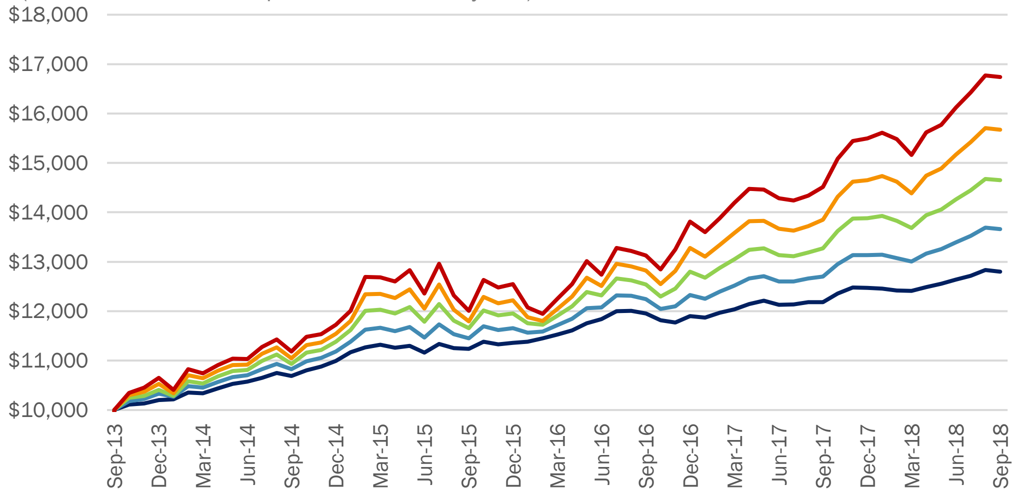
Fund performance[1]

as at 30 September 2018

	Morningstar Rating™ Overall[2]	Morningstar Category Rank 5 Year[2]	3 months %	1 year %	3 years %p.a.	5 years %p.a.	Fund size $m
Bendigo Defensive Index Fund	★★★★★	2 / 18	1.25	5.06	4.42	5.06	$115.77
Peer Comparison			*0.79*	*3.51*	*3.42*	*3.98*	
Bendigo Conservative Index Fund	★★★★★	3 / 119	2.01	7.61	6.06	6.44	$465.99
Peer Comparison			*0.88*	*4.47*	*4.32*	*4.67*	
Bendigo Balanced Index Fund	★★★★★	2 / 106	2.72	10.40	7.91	7.94	$479.34
Peer Comparison			*1.41*	*6.83*	*6.40*	*6.18*	
Bendigo Growth Index Fund	★★★★★	5 / 193	3.31	13.14	9.94	9.40	$302.39
Peer Comparison			*1.92*	*9.29*	*8.04*	*7.62*	
Bendigo High Growth Index Fund	★★★★★	6 / 119	3.82	15.31	11.71	10.85	$41.82
Peer Comparison			*2.95*	*12.07*	*10.15*	*9.35*	

An example of how your investment grows

Growth of $10,000 over 5 years[1]
(Based on historic Fund performance over 5 years)



Make the most of your investment

You need $50,000 to start an investment in one of our Bendigo Managed Wholesale Funds

▶ The power of compounding

Compounding can be a powerful tool in wealth creation. Reinvesting distributions can be one of the easiest and cheapest ways to increase your holdings over time. You're compounding your investment's growth by continually adding more units which, in turn, will generate distributions of their own.

Why not reinvest your half yearly distributions?

▶ The benefits of making it regular

Making regular contributions to your investment can both grow your investment and smooth the effects of market highs and lows.

Why not add a Regular Savings Plan to your investment? You can establish one from as little as $50 per month.

You can also use BPAY® to add to your investment at any time with as little as $100. See your statement for your BPAY reference number.

Refer to the last page for footnotes

Fund facts

Bendigo Defensive Index Fund

Fund APIR code	STL0031AU
Fund start date	30 September 2011
Return objective:	CPI + 1.5%
Recommended investment timeframe	2 years +
Risk level	Low

Bendigo Conservative Index Fund

Fund APIR code	STL0032AU
Fund start date	30 September 2011
Return objective:	CPI + 2%
Recommended investment timeframe	3 years +
Risk level	Low to medium

Bendigo Balanced Index Fund

Fund APIR code	STL0033AU
Fund start date	30 September 2011
Return objective:	CPI + 3%
Recommended investment timeframe	4 years +
Risk level	Medium

Bendigo Growth Index Fund

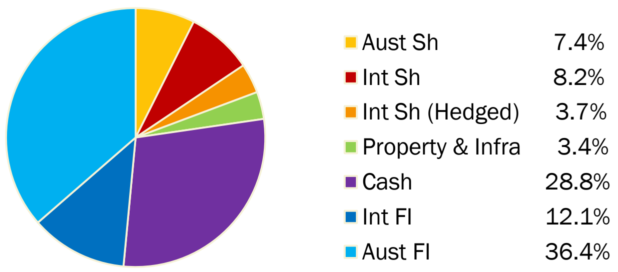
Fund APIR code	STL0034AU
Fund start date	30 September 2011
Return objective:	CPI + 4%
Recommended investment timeframe	5 years +
Risk level	Medium to high

Bendigo High Growth Index Fund

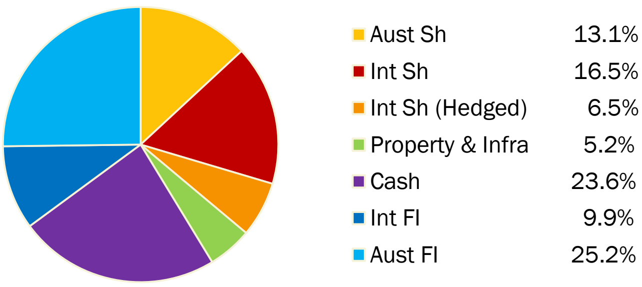
Fund APIR code	STL0035AU
Fund start date	30 September 2011
Return objective:	CPI + 5%
Recommended investment timeframe	7 years +
Risk level	High

Asset allocation

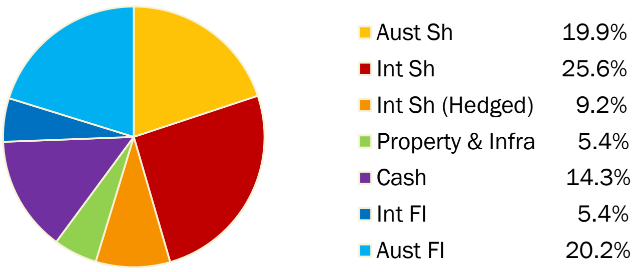
Bendigo Defensive Index Fund



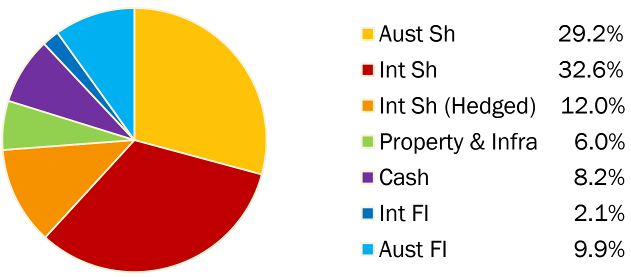
Bendigo Conservative Index Fund



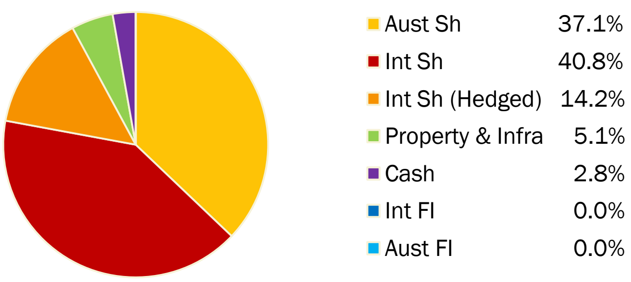
Bendigo Balanced Index Fund



Bendigo Growth Index Fund



Bendigo High Growth Index Fund



Unit prices

	Application price	Withdrawal price
Bendigo Defensive Index Fund	$1.14920	$1.14714
Bendigo Conservative Index Fund	$1.28215	$1.27959
Bendigo Balanced Index Fund	$1.41119	$1.40837
Bendigo Growth Index Fund	$1.55425	$1.55115
Bendigo High Growth Index Fund	$1.59264	$1.58945

Performance commentary

Returns for the quarter were positive across all risk profiles boosted by strong returns within global equities, which was the highest returning asset class over the period. Investment positioning with a tilt towards global equities benefited the fund, as well as a bias towards Australian fixed income over global fixed income, in which a rise in US treasury yields led to underperformance of global bonds relative to domestic bonds.

Economic commentary

Over the quarter global economic data has been mixed, with soft data out of China and Europe, while Trump's debt induced government spending has ensured a boost in US GDP. Despite encouraging employment growth, long absent wage inflation continues to tease, with expectations of a pickup continually disappointing. Given the expansion of the federal budget deficit, the US Government would be eager to see an uplift in wages to boost tax receipts and stabilise the government budget. Over the course of the quarter trade wars continued to dominate headlines, with newly announced trade tariffs often coinciding with weakening emerging market currencies and a stronger USD. The Trump administration won't back down until resolution on a free market exchange and protection from intellectual property theft. China are holding firm, not willing to give in to the bullying tactics from the US.

The past quarter risk assets rallied, leading the march was US technology stocks. Global markets have continued their diverging paths, with European and emerging market equities sluggish, while the US continues to drift upwards. In the US, a period of strong earnings, together with corporate tax cuts and the repatriation of US offshore corporate earnings, has led to strong free cash flow for US corporates over the past year. US companies, driven by tax incentives, are motivated to repurchase their shares (buybacks), rather than pay dividends which is the more common option for Australian companies. The combination of strong cash flows and corporate preference to buy back shares, rather than invest within the company, is a major contributor as to why the US share market has not followed the more subdued pattern that other major equity markets have followed since February this year.

In Australia, weak house prices, particularly in Sydney and Melbourne, have been the source of news headlines with doomsayers predicting a housing crash. The combination of tighter credit standards and investor withdrawal has seen globally relative high property prices move south, with auction clearance rates hitting weak levels. While a correction is warranted given low affordability, a complete property crash is unlikely absent of a large fall in employment. Presently the jobs market appears robust, with the majority of recent employment gains government backed or aligned to structural long-term demographic demands, such as the healthcare sector. Further supporting a floor, is that much of the first home owner market have been priced out for an extensive period of time, as indicated by the historically low proportion of first homeowners relative to existing, experienced over the past decade. Whilst demand and supply dynamics have historically been in favour of upward prices, proposed immigration policies enforcing immigrates away from Sydney and Melbourne could lead to a levelling of the demand and supply dynamics, elongating the recovery process. Watching on with keen interest, the RBA will be encouraged by an orderly easing of house prices and will support consumer debt reduction by most likely limiting rate rises until a floor in house prices has been found.

Do you have any questions?

For further information contact us on 1800 634 969 or visit www.sandhursttrustees.com.au

Asset positioning commentary

The Funds have maintained tilts away from interest rate sensitive investments with lighter holdings in global government bonds and REITs. We continue to prefer our growth exposure in global equities due to our perception of greater earnings growth potential in comparison to domestic equities. Due to our underweight position in equity risk offsetting government bonds, we prefer a bias to unhedged exposure, with the aim to reduce overall portfolio volatility.

Australian Shares

The Australian stock market is heavily influenced by bank stocks and the resource sector. The Australian market faces headwinds in a slowing property market which is expected to not only dampen credit growth for the banking sector but sales growth for Australian retailers. The outlook for the resource and energy sector is unclear, with iron ore producers subject to stimulus announcements from a cooling China, while recent supply disruptions in the energy market and falls in the Australian dollar are benefiting energy stocks. The dominate tailwind for the Australian equity market is the recent fall in the Australian dollar which makes Australian goods relatively more attractive to both consumers in Australia and global importers.

Slightly underweight

International Shares

We continue our slight bias to global equities over Australian stocks. From an index based perspective, we remain sceptical of the growth characteristics of the large weighted components of the ASX and favour the sector diversity that global equities provide. This includes a greater exposure to the rapidly growing technology sector, which continues to expand relative to other industries globally.

Hedge ratio 25% of OS equities

Overweight

Property & Infrastructure

Listed property returns continue to be highly correlated and sensitive to movements in long dated bond yields. Underpinning this correlation is the strong cash flow characteristics which is favourable in falling interest rate environments. Lower market yields create a higher sensitivity to the movement in property prices and hence we continue to be cautious towards this asset class given interest rate volatility.

Underweight

Fixed Income

Overall we hold a slight underweight to fixed income. Due to the artificial compression of yields through global quantitative easing programs, we remain cautious on global government bonds. The combination of additional government spending and tax cuts in the US is leading to additional supply of US government bonds which is not favourable for bond prices. We continue to prefer a tilt towards Australian government bonds over global, due to the more supportive fundamentals. Relative to abroad Australia provides high real yields and low government debt levels. Fixed income benefits from falling interest rates in which the subdued domestic economy, weighed down by high and falling house prices, is likely to ensure interest rates remain low over the next 12 months. We prefer a neutral holding on credit securities inline with our perception of value in this space.

Slightly underweight

Cash

Cash is used as a balancing item based on views of other asset classes.

Slightly overweight

Footnotes

1. Fund performance figures are calculated before tax and after fees and costs; using withdrawal prices and assumes distributions are reinvested. Past performance is not an indication of future performance.
2. 'Morningstar Rating' is an assessment of a fund's past performance – based on both return and risk – which shows how similar investments compare with their competitors. A high rating alone is insufficient basis for an investment decision. 'Peer Comparison' performance refers to the performance of the relevant 'Morningstar Category' for the stated period. Investments are placed into Morningstar Categories based on their compositions and portfolio statistics so that investors can make meaningful comparisons (see table right). 'Morningstar Category Rank' is the Fund's performance rank relative to all funds in the same Morningstar Category.

Fund	Morningstar Category
Bendigo Defensive Index Fund	Multisector Conservative
Bendigo Conservative Index Fund	Multisector Moderate
Bendigo Balanced Index Fund	Multisector Balanced
Bendigo Growth Index Fund	Multisector Growth
Bendigo High Growth Index Fund	Multisector Aggressive

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The managed funds detailed in this update (individually referred to as 'Fund' or collectively as 'Funds') are issued by Sandhurst Trustees Limited (Sandhurst) ABN 16 004 030 737 AFSL 237906 a subsidiary of Bendigo and Adelaide Bank Limited (the Bank) ABN 11 068 049 178 AFSL 237879. Sandhurst and the Bank receive remuneration on the issue of the Funds or the service they provide, full details of which are contained in the relevant Product Disclosure Statement (PDS). Investments in the Funds are not deposits with, guaranteed by, or liabilities of the Bank or any of its related entities. Economic and outlook forecasts are not guaranteed to occur. Sandhurst has prepared this document based on information available to it. The information and opinions provided in this document have not been verified and Sandhurst has no obligation to notify you in the event that any information or opinions change. No representation is made to the fairness and accuracy of the information, opinions and conclusions contained in this document. This update is provided by Sandhurst and contains general advice only. Please consider your situation and read the relevant PDS available at www.sandhursttrustees.com.au/pds, any Bendigo Bank branch or by phoning 1800 634 969 before making an investment decision.

The information is current as at 30 September 2018 (unless stated otherwise) and is subject to change without notice.