

Sandhurst Future Leaders Fund

Monthly fund update - June 2020

Investment approach

The Fund aims to deliver income and capital growth over the long term by providing exposure to a diversified portfolio of quality ASX listed shares outside the top 50 shares listed on the ASX where these assets are identified by Investors Mutual Limited (IML) as being undervalued.

Fund performance¹

as at 30 June 2020

Morningstar
Rating™
Overall³

Morningstar
Category Rank
5 Year³

| | 1 month % | 3 months % | 1 year % | 3 years %p.a. | 5 years %p.a. |
|-------------------------------|-----------|------------|----------|---------------|---------------|
| Sandhurst Future Leaders Fund | -1.81 | 17.96 | -15.25 | -3.27 | 2.38 |
| Benchmark ² | 1.30 | 28.00 | -1.50 | 6.00 | 9.50 |

Sandhurst Future Leaders Fund

★★★

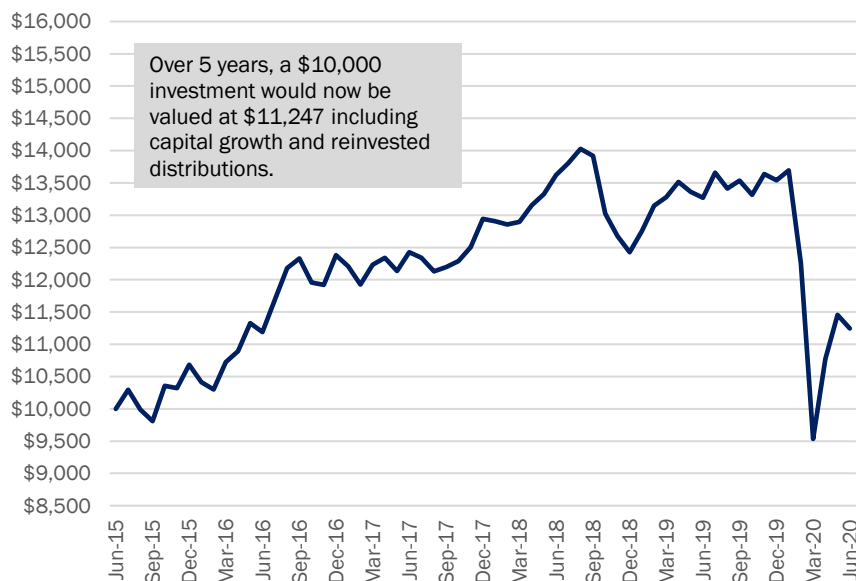
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Benchmark²

An example of how your investment grows

Growth of \$10,000⁴

(Based on historic Fund performance over 5 years)



Fund facts

| | |
|--------------------------------------|-----------------|
| Fund APIR code | STL0011AU |
| Fund inception date | 7 June 2002 |
| Distribution frequency | Half yearly |
| Management costs ⁴ | 1.50% p.a. |
| Buy / Sell spread ⁴ | +0.25% / -0.25% |
| Minimum investment / minimum balance | \$2,000 |
| Recommended investment timeframe | 5 years + |
| Risk level | High |

Unit price

as at 30 June 2020

| | |
|-------------------|-----------|
| Application price | \$0.79943 |
| Withdrawal price | \$0.79544 |

Distribution details (cents per unit)

| | |
|------------------|-----------------|
| 31 December 2019 | \$0.02850 |
| 30 June 2020 | No Distribution |

Make the most of your investment

► 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? 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.

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Do you have any questions?

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

Sharemarket commentary⁵

- ▶ Global sharemarkets endured one of the most turbulent 12 months periods on record
- ▶ The Fund's ex 50 benchmark finished the year down -1.5% after rallying +28% in the June quarter

In one of the most eventful and turbulent 12-month periods on record for financial markets, the MSCI World Index finished FY20 with a small gain of +3.1%. The first 8 months of the FY saw most equity markets continue to rise as investors remained optimistic about the prospect of sustained global growth as accommodative central bank action allowed investors to shrug off trade tensions between the US and China. From record highs in mid-February, most equity markets collapsed from late February to late March as the coronavirus pandemic forced the shutdown of economies across the globe.

To counter the economic fallout from the pandemic, governments and central banks around the world unleashed massive stimulus measures, cutting interest rates close to zero and implementing huge quantitative easing programmes. The US Federal Reserve announced unprecedented programmes worth trillions of dollars such as the purchase of USD750 billion of corporate debt, including junk bonds. In Australia, the RBA cut rates 4 times by 0.25% through FY20, to a record low of 0.25%. In addition, the Australian Government's fiscal stimulus measures announced to support the economy approached 10% of GDP, with the domestic economy facing the prospect of its first recession in 29 years.

The Australian sharemarket as measured by the S&P/ASX300 Index experienced a challenging year, falling -7.6%, its worst year since 2012. As with many of its global peers, the Index reached an all-time high in late February, only to shed -37% from peak to trough amid the pandemic selloff. The June quarter saw the Fund's ex-50 benchmark deliver one of its strongest quarters on record. The benchmark rallied +28.0% after the huge fiscal and monetary responses from Governments and the RBA, and thanks to investor optimism as various sectors reopened despite concerns of a 2nd wave emerging in Melbourne late in the quarter.

Portfolio performance & summary⁵

- ▶ IML are adopting a cautious approach to the sharemarket looking to selectively use some of the Fund's cash

The Fund endured a difficult year posting a negative return of -15.25% which was well below the benchmark's return of -1.50%. The Fund did not keep up with the exuberant returns the benchmark posted in the 8 months preceding the COVID sell off, driven primarily by the more cyclical and speculative sectors such as Technology and Resources. In addition, some of the Fund's key holdings, such as SkyCity and Event Hospitality, were directly impacted by the COVID lockdowns and as a result were hit hard during the March quarter correction.

Over the final quarter of FY20, the Fund benefited from a strong rebound, returning +17.96%, albeit behind the benchmark's strong return of +28.0%. Importantly, the portfolio remains heavily skewed to more resilient and defensive companies. IML believe this is appropriate should the V-shaped economic recovery - which many investors have positioned for - fail to eventuate to the extent that many are expecting. In addition, the fundamentals of the companies the Fund is invested in are closely aligned to what IML believe is the economic reality once the current stimulus ends.

Over the June quarter, the Fund benefited from its holdings in good quality industrials such as Pro-Pac Packaging, Integral Diagnostics and Pact Group which all performed well.

Outlook⁵

Unprecedented central bank intervention, massive fiscal stimulus, significantly lower bond yields and optimism regarding the speed and strength of the economic recovery all contributed to sharemarkets regaining some of their losses during the final quarter of FY 2020. Having said this, major uncertainties remain about the sustainability of economic growth post-lockdowns as the current government stimulus and interest deferrals by the banks eventually come to an end. Unemployment in the second half of 2020 looks like it will remain relatively high and given record household debt in Australia this could affect the level of demand across certain sectors of the economy, as well as cause a material pick-up in non-performing loans for the banks. As such, IML remain cautious on the medium-term prospects for the global and Australian economies.

While many sharemarkets have rapidly recovered much of their March quarter losses, IML expect volatility to return as investors start to question how quickly the profitability of many companies will return to pre-virus levels. IML therefore retain a very selective approach as they continue to focus on companies that in their view have a strong franchise, experienced capable management and a resilient business that can continue to generate healthy cashflows through uncertain economic times.

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. The benchmark for the Fund is the S&P/ASX 300 Accumulation Index (excluding S&P/ASX 50, excluding property trusts).
3. Sandhurst Future Leaders Fund received a 3-Star Overall Morningstar Rating™ out of 16 Equity Australia Mid/Small Value funds as of 31 May 2020 and a 2-Star Five year rating out of 14 Equity Australia Mid/Small Value funds as of 31 May 2020.
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The '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. 'Morningstar Category Rank' is the Fund's performance rank relative to all funds in the same Morningstar Category. Investments are placed into Morningstar Categories based on their compositions and portfolio statistics so that investors can make meaningful comparisons. Source: www.morningstar.com.au/Funds/FundReport/9227
4. Other fees and costs may apply. See the Product Disclosure Statement for full details.
5. This commentary is provided by Investors Mutual Limited (IML) and has not been verified by Sandhurst Trustees Limited. Economic and outlook forecasts are not guaranteed to occur.

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This information is current as at 30 June 2020 (unless stated otherwise) and is subject to change without notice.

Top 10 holdings

Crown Resorts
Pact Group
Aust Pharmaceutical
Integral Diagnostics
Salmat
Integrated Research
AusNet
McPherson's
Skycity Entertainment
Tabcorp

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