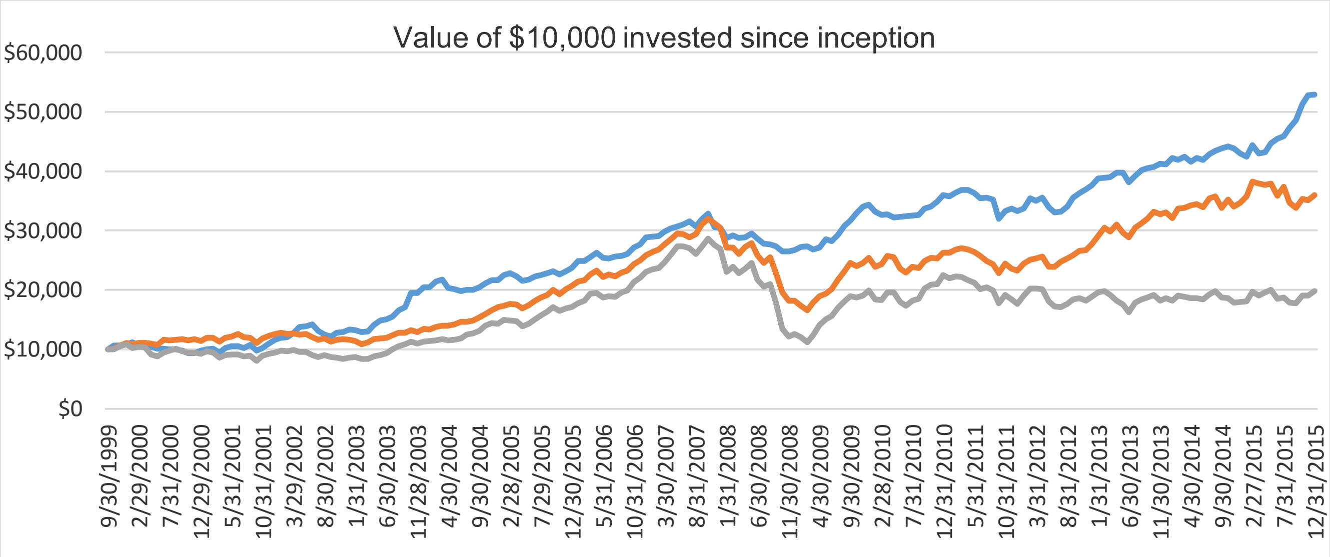
<u>The Supervised Fund (TSF)</u> – December 2015 monthly report.

Dear unitholders,

The Supervised Fund returned 0.39% net of fees during December 2015. The Fund's performance compared to the All Ords Accumulation Index and Small Ords Accumulation Index are set out as follows.

	TSF AFTER ALL FEES	ALL ORDS ACCUM	TSF OUTPERFORMANCE
Month ending 31 Dec 2015	0.39%	2.65%	-2.26%
6 Months	16.42%	0.45%	15.98%
1 year	23.10%	3.78%	19.32%
3 years (p.a)	12.12%	9.26%	2.87%
Since inception (p.a) (16 years)	10.80%	8.21%	2.60%



In the above chart the blue line represents TSF, the grey line represents the Small Ords Accumulation Index and the orange line represents the All Ords Accumulation Index. Please note these returns include the previous USD denominated Supervised Investments Limited which merged with TSF in 2009.

Some further information regarding the portfolio is displayed below[1].

Cash	19%
Kangaroo Island Plantation Timbers Limited	27%
HGL Limited	11%
Australian Vintage Limited	8%
Gale Pacific Limited	7%
Samuel Terry Absolute Return Fund	5%
Bell Financial Group Limited	4%
BHP Billiton Limited	3%
Sirtex Medical Limited	3%
Hunter Hall International Limited	3%
Co-Operative Bank Limited common equity	2%
Keybridge Capital Limited	1.5%
Molopo Energy Limited	1.5%
St Barbara Limited	1.5%
Po Valley Energy Limited	1%
H&T Limited	1%
Net other (adjusted for rounding in the above)	1.5%

No capital has been invested in options over indices or currencies. There are no futures contracts exposure.

4% of capital is invested in non-Australian investments.

6.3% of capital is invested in ASX200 members.

[1] These weightings are current as at the date of writing this report.

HOLDINGS COMMENTARY

December was a somewhat quiet month for our holdings.

Forestry investment company **KPT** was the largest contributor to the positive result, rising 5%. During the month KPT purchased standing timber situated on 303 hectares of land already owned by the company via issuing scrip. The vendor was a long dating MIS scheme. At the current share price the consideration was $108,000, this was more than justified by the immediate $300,000+ increase in the fair value of land[2]. Furthermore, we estimate the value of the trees purchased to be between $0.5m of $2m depending on the existence and economics of a port, suggesting a very savvy purchase. Management continues to exceed our expectations and the stock trades at a significant discount to what we consider to be risk adjusted fair value. We expect KPT to continue to perform in the coming 12 months.

Our biggest loser during the month was Italian gas company **PVE** which sold off by 30%. While sector and regulatory pressure is somewhat responsible for PVE's pain, the company has disappointed by not being able to complete previously announced farm-out deals. Under almost all of our scenarios PVE is ridiculously cheap, but the company needs capital and the present time is not ideal to be searching for such. We remain optimistic about the upside potential of PVE and note it represents just over 1% of unitholders capital.

MARKET COMMENTARY

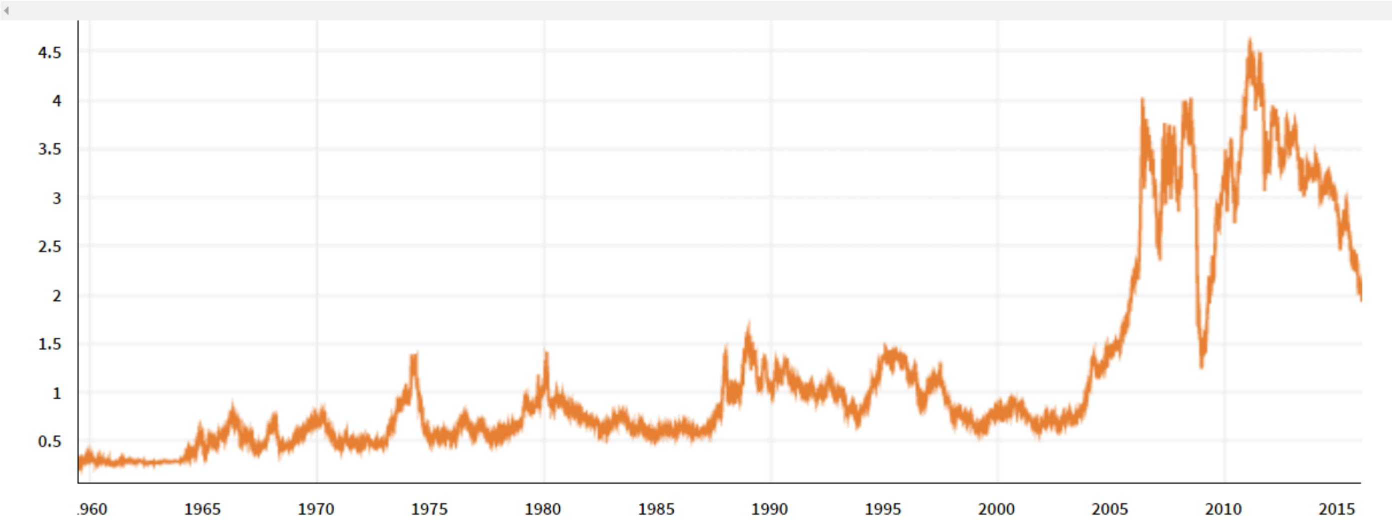
Commodity price pain has continued to dominate investment news wires. For the past 2 years we have steered clear of commodity producers and until very recently had less than 2% of capital invested in such. This month we saw it fit to articulate our view and strategy on commodity markets. Unitholders should note we intend to provide maximum transparency, we want our partners to understand how their capital is being allocated and why.

Commodity producers are unique because the price of their finished product fluctuates dramatically over time. Perhaps the only thing we believe we can predict with almost 100% certainty is the price of commodities will continue to fluctuate in the future.

Commodity projects require high up-front capital investment. This means corporate managers must take a view on these constantly shifting prices and budget accordingly. The easiest view to take is the current price will prevail in the future – while this is obviously inherently incorrect it is the accepted status quo. Accordingly, as commodity prices rise more and more projects become firstly feasible and secondly commissioned.

This phenomenon has played out over the past 7 or so years as commodity prices were buoyant up until 12 months ago. Because resource projects have such long lead times, many projects originally approved 3-5 years ago are only just beginning to hit the market. In other words, supply of commodities is continuing to build despite price declines. This long lead time in conjunction with high abandonment & restart costs perpetuates the commodity price cycle in our view. The below chart illustrates the long term price of copper in USD per pound. We have adopted copper because it is convenient from a data perspective, from our research other commodities follow a very similar path.

[2] The fair value of the land (which was already owned) modified because unencumbered land is valued under a different accounting standard than encumbered land; unencumbered land heralds higher value for KPT's purposes.



Source: Quandl.

We see there have been several occasions when commodity prices have more than halved and subsequently taken over 5 years to recover. History suggests the bottom of commodity cycles can be much more prolonged than equity market valuation cycles, again this is due to long lead times and high abandonment costs during supply driven commodity slumps. It's also worth noting that low commodity prices are actually a net positive for the global consumer. Many commentators have recently suggested prices are unsustainable because so many companies are unprofitable – again looking to history we can see many occasions when unprofitable companies continue to operate for several years. We certainly don't believe we can forecast commodity prices, but believe it is irresponsible to assume they will revert quickly.

If we are nearing the tough times of a supply driven commodity price slump, we will need to see either significant re-capitalisations, bankruptcies and mine closures or game changing shifts in demand metrics for prices to recover. Playing the devil's advocate we haven't yet seen either and thus have **made the decision to only invest in companies which are cheap even if commodity prices drop a further 15% and remain low for more than 5 years.** While many small cap mining companies' valuations still seem to imply an imminent commodity price recovery, we do see value in some of the larger mining companies. We are particularly interested in the bottom 25% of the cost curve. We continue to believe in commodity price cycles and believe many of these stocks will trade multiples above their current prices at the top of the cycle.

The local market index has a 15% weight to mining and oil companies. Over the coming 12-18 months we hope we can lift our 5% exposure to more than 15% by adhering to our strict criteria. We look forward to articulating any new positions. The fund is open to new investors and we welcome any queries on the portfolio, investment strategy and outlook.

Mitch Taylor and David Constable – 18 January 2016.

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