The Supervised Fund

APIR SIA0002AU

FACT SHEET JUNE 2017

The Fund at a glance

Fund Name	The Supervised Fund
Investment Manager	Supervised Investments Australia Limited (SIAL)
AFSL	317 155
Launch Date	1st December 2007
Legal Structure	Wholesale Unlisted Unit Trust
Investment Objective	Provide investors with an annual return which outperforms the Benchmark whilst trying to minimise the risk of permanent loss of capital.
Investment Universe	Predominately invests in equities and is also able to invest in debt securities, managed funds, derivatives and cash.
Fund Benchmark	5% p.a.
Minimum Investment	$500,000. SIAL has the discretion to accept a lesser minimum initial investment provided the investor meets the definition of a “Wholesale Client”.
Investment Management Fee	1.5% per annum (plus GST) of the Fund’s net assets before performance fee accruals
Performance Fee	20% (plus GST) of any return above the Benchmark, payable annually with a “high water mark”.
Unit Pricing Frequency	Monthly
Distribution Frequency	Yearly
APIR Code	SIA0002AU

Investment Strategy

We believe that equity markets are inefficient and therefore offer excellent investment opportunities over time. The inefficiencies arise due to excesses in investor emotion, short term investment horizons and disproportionate focus on one of the least important aspects of a company’s financial health – a single year’s profit and loss statement.

The investment team seeks to construct a portfolio which provides investors with an annual return that outperforms other assets with similar riskiness whilst minimising permanent loss of capital. The investment team will invest on a global basis but has a natural tendency to focus on the Australian market. Capital can be allocated to equities, option contracts, foreign exchange derivatives, debt securities and commodities. However, at least 85% of capital is allocated to listed equity investments and cash at any given time. The net assets of the Fund will not be geared, however the Fund may hold leveraged positions through commodities and foreign exchange contracts from time to time for hedging purposes.

Conventional thinking is that holding more stocks reduces stock specific risk. Research, however, shows that 93% of stock specific risk can be eliminated by holding 20 stocks; basically each stock added to a portfolio beyond 20 is likely to have a decreasing impact on risk reduction (Elton and Gruber 2002). This means, effective diversification can be achieved in concentrated portfolios.

Adding investments to a portfolio requires rigorous risk identification analyses. A manager has a greater chance of finding 20 great investments than 100 great investments, and each additional investment brings in new risks. Focussing on fewer positions enables for a greater understanding of each thesis and allows for increased expected return on the portfolio. It is for these reasons we construct a concentrated portfolio with 15-25 core positions.

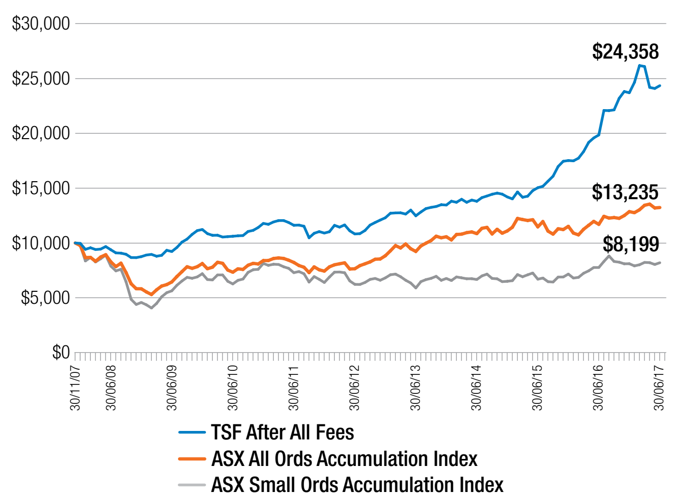
In selecting positions we apply the following six step process:

1. Fundamental valuation
2. Macroeconomic considerations
3. Catalyst identification
4. Downside stress testing
5. Investment edge
6. Portfolio fit

The Supervised Fund Unit Value since commencement including Distributions as at 30 June 2017

The following chart illustrates the value of $10,000 invested in the Fund since inception versus equity indices.

Value of $10,000 invested since inception



SOURCE: Supervised Investments Australia Limited. Past performance is no guarantee of future performance and no guarantee of future return is implied.

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Relative Performance net of fees

PERFORMANCE ANALYSIS	TSF AFTER ALL FEES	BENCHMARK	ALL ORDS ACCUM
Month ending 30 June 2017	1.1%	0.4%	0.3%
6 months	2.7%	2.5%	2.9%
1 year	22.7%	5.0%	13.1%
3 years p.a.	20.8%	5.0%	6.8%
Since inception p.a. (since 1 Dec 2007)	9.7%	5.0%	3.0%

SOURCE: Supervised Investments Australia Limited. Past performance is no guarantee of future performance and no guarantee of future return is implied.

Portfolio at 30 June 2017

Top 10 Positions	% of NAV
Kangaroo Island Plantation Timbers Limited	22.6%
Cash	15.0%
HGL Limited	11.2%
Hillgrove Resources	7.8%
Gale Pacific Limited	5.9%
Nine Entertainment Co Limited	4.2%
ETFS Physical Gold	4.1%
Po Valley Energy Limited	4.0%
Base Resources Limited	3.7%
Sirtex Medical Limited	3.0%
Bell Financial Group Limited	2.7%
NZME Limited	2.4%
Ariadne Australia Limited	2.2%
UNDISCLOSED**	2.1%
HT &E Limited	1.4%

****We are still buying this company and will report once we reach our desired exposure*

How to Invest

Visit: **www.supervisedinvestments.com/the-supervised-fund/**

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Commentary

The Supervised Fund generated satisfactory returns during the financial year ending 30 June 2017. We pride ourselves on transparency. The below table illustrates our winners and losers for the financial year.

2017 Financial Year attribution

Holding	Return on Capital employed	Contribution to Fund return
Winners		
Hillgrove Resources Limited	244.80%	6.80%
Kangaroo Island Plantation Timbers Limited	26.30%	6.70%
HGL Limited	27.20%	2.90%
Po Valley Energy Limited	11.94%	2.60%
NZME limited	88.10%	2.50%
Base Resources Limited	99.70%	2.40%
Osprey Medical Inc CDI	87.40%	1.60%
Nine Entertainment Co Limited	33.60%	1.30%
Losers		
Put Options over stock indicies (hedges)	-75%	-1.30%
Australian Vintage Limited	-8.30%	-0.50%
Medusa Mining Limited	-43%	-0.50%
Kingsrose Mining Limited	-40%	-0.40%
Blackham Resources Limited	-29.20%	-0.40%
Beadell Mining Limited	-17.30%	-0.40%
Platina Resources Limited	-17.70%	-0.30%
Ramelius Resources Limited	-5.20%	-0.10%

Most positive returns were owing to company specific catalysts across a range of sectors. Our biggest unforced errors were in the junior gold sector – we learnt to stick to our core competency of stock–specific, catalyst–driven investments rather than seek returns by overweighting a particular sector. Cutting exposure to losing investments in a timely and rational manner is equally as difficult as picking winners. To this end, we are delighted that our biggest losing investment during the year were put options over the US Stock Market. We routinely purchase puts to protect our unitholders' capital from excessive drawdowns during times of financial market stress. We do not pretend to have the ability to predict the timing of general market panics and will continue to invest 1-2% of capital in such insurance products each year.

The local small company sector has experienced significant volatility over the last 6-9 months. A string of earnings downgrades and the underperformance of some of the high profile "growth" companies seem to have sparked a revolt from the sector. The withdrawal of what some may call the "hot money" is creating interesting investment opportunities. We look forward to the year ahead and will continue to focus our investments on small, misunderstood Australian companies with identifiable catalysts for return.