



SUPERVISED INVESTMENTS  
AUSTRALIA

# SUPERVISED HIGH YIELD FUND

MARCH 2016

The Supervised High Yield Fund ARSN 600 244 102 (**SHYF** or **Fund**) is an Australian Dollar hedged international Debt Securities managed investment scheme. The Manager's objective is to deliver capital preservation whilst generating a high return, low risk portfolio.

## Investment Policy

The Fund is managed using an absolute return investment process. This process uses economic analysis and asset research combined with historic worst case stress testing to search out and discover the lowest risk best reward investment opportunities in the debt market. The Fund does not invest in junk bonds.

## Unit Price and Performance Update

The Fund's net asset value (**NAV**) is calculated at the end of each month and represents the value of the Fund's assets less the value of the liabilities of the Fund (including the Fund's fees, costs and taxes). The value of a Fund unit is then calculated by dividing the Fund NAV by the number of units on issue in the Fund at the end of the relevant month.

Fund returns have been calculated using exit prices and reinvestment of distribution.

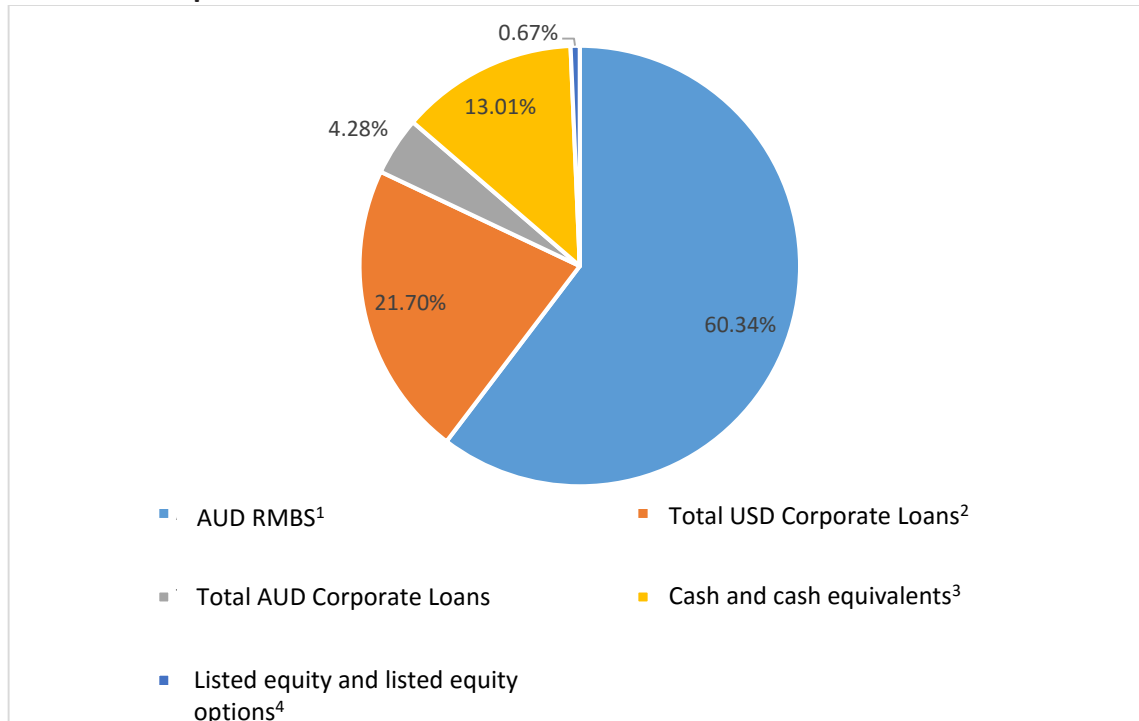
FUND INFORMATION AS AT 31 MARCH 2016	\$ Value
Net asset value of fund (NAV)	\$19.37million
Pre distribution unit price	\$12.4829
Distribution paid per unit	\$0.0915
Ex distribution unit price	\$12.3914
Buy / Sell Spread	\$0

Compound Annual Returns to 31 MARCH 2016 <sup>^</sup>	Fund	Benchmark <sup>*</sup>	Relative Performance
1 Month	0.77%	0.31%	0.46%
3 Months	0.45%	0.88%	-0.43%
6 Months	1.40%	1.77%	-0.37%
1 Year	4.44%	3.59%	0.85%
3 Years	5.95%	3.88%	2.07%
5 Years	7.88%	4.37%	3.51%
Since commencement <sup>**</sup>	9.38%	4.56%	4.82%

<sup>^</sup>Returns are after fees and expenses; <sup>\*</sup>The Fund's current benchmark is the RBA bank rate plus 1.5%. The Fund's benchmark since commencement to June 2013 was the RBA bank rate plus 1.0% and in July 2013 it was changed to RBA bank rate plus 1.5%; <sup>\*\*</sup> Fund commenced on 1 April 2009.

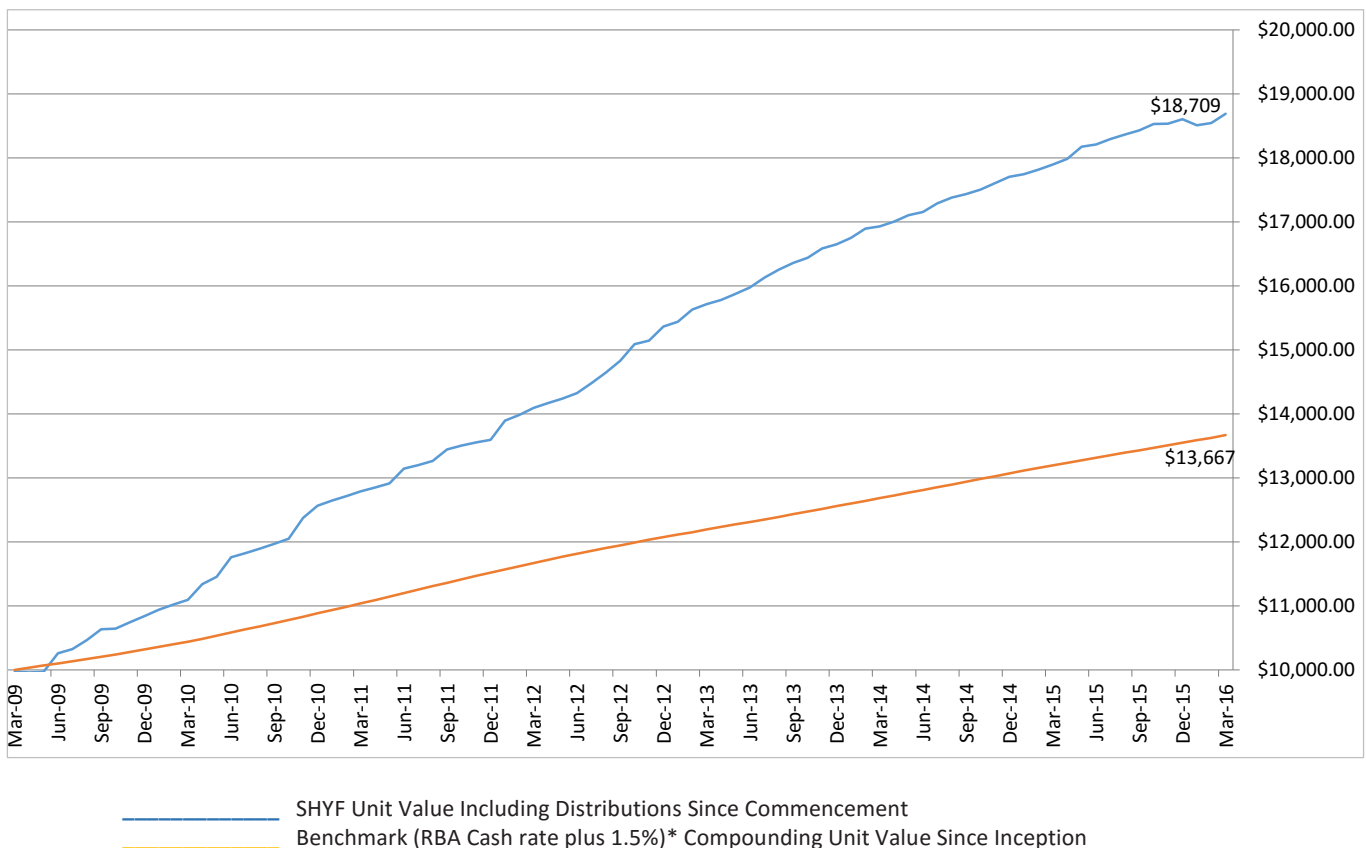
**Source:** Supervised Investments Australia Limited, the investment manager of the Fund. Past performance is no guarantee of future performance and no guarantee of future performance is implied.

## Portfolio Composition as a % of NAV as at 31 March 2016



<sup>1</sup>AUD Residential Mortgage Backed Securities; <sup>2</sup>USD Collateralised Secured Corporate Loan Obligations; <sup>3</sup>Includes cash at bank, cash held in margin accounts plus other receivables less payable; <sup>4</sup>Convertible Loans converted into equity and equity options. **Source:** Supervised Investments Australia Limited, the investment manager of the Fund. Past performance is no guarantee of future performance and no guarantee of future performance is implied.

## Fund Unit Value Including Distributions since inception versus its Benchmark\*



\*The Fund's current benchmark is the RBA bank rate plus 1.5%. The Fund's benchmark since commencement to June 2013 was the RBA bank rate plus 1.0% and in July 2013 it was changed to RBA bank rate plus 1.5%.

**Source:** Supervised Investments Australia Limited, the investment manager of the Fund. Past performance is no guarantee of future performance and no guarantee of future performance is implied.

## Manager's Comment

The Supervised High Yield Funds unit price in March 2016 increased by 0.77% (net of fees). It was pleasing to see a positive performance in light of the March quarter's negative price action in the US High Yield Corporate debt market.

As foreshadowed in recent monthly performance reports market price volatility for BBB, BB, B and CCC rated US High Yield Corporate Bonds has been higher than at any time in recent memory, certainly higher than at any time since the 2007 onset of the Global Financial Crisis. Underlying this activity as it's causal influence has been the forced selling of BBB, BB, B and CCC rated USD High Yield Corporate Bonds and secured Corporate Loan asset backed securities (Collateralised Loan Obligations or CLOs) by several large US Banks and the Branch offices of several international banks operating in the US.

The forced selling of these Bonds appears to be a reaction to changes in the US banking rules for capital reserve requirements for secured corporate loans, CLO mezzanine notes and equity. The changes have made it relatively expensive, from a capital allocation perspective, for Banks to hold such assets. Forced selling in this sector reached its apogee during February 2016 at which time some poorly collateralised assets in the CLO sector traded down to 45 cents in the dollar, other CLO assets with stronger collateral traded down to a range of between 90 and 70 cents in the dollar level. Since that date non-bank buyers, pension funds, hedge funds and bond funds, recognising the exceptional value on offer have mopped up a large quantity of the available CLO securities in the market. In response prices have now rallied between 0.15% to 0.20%. However it appears some excess supply is still in the market and prices have not yet made a full recovery to their pre March 2016 quarter levels.

### Disclaimer.

Supervised Investments Australia Limited ACN 125 580 305 AFSL 317155 (**SIAL**) is the investment manager of the Supervised High Yield Fund (ARSN 600 244 102) (**SHYF or Fund**).

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