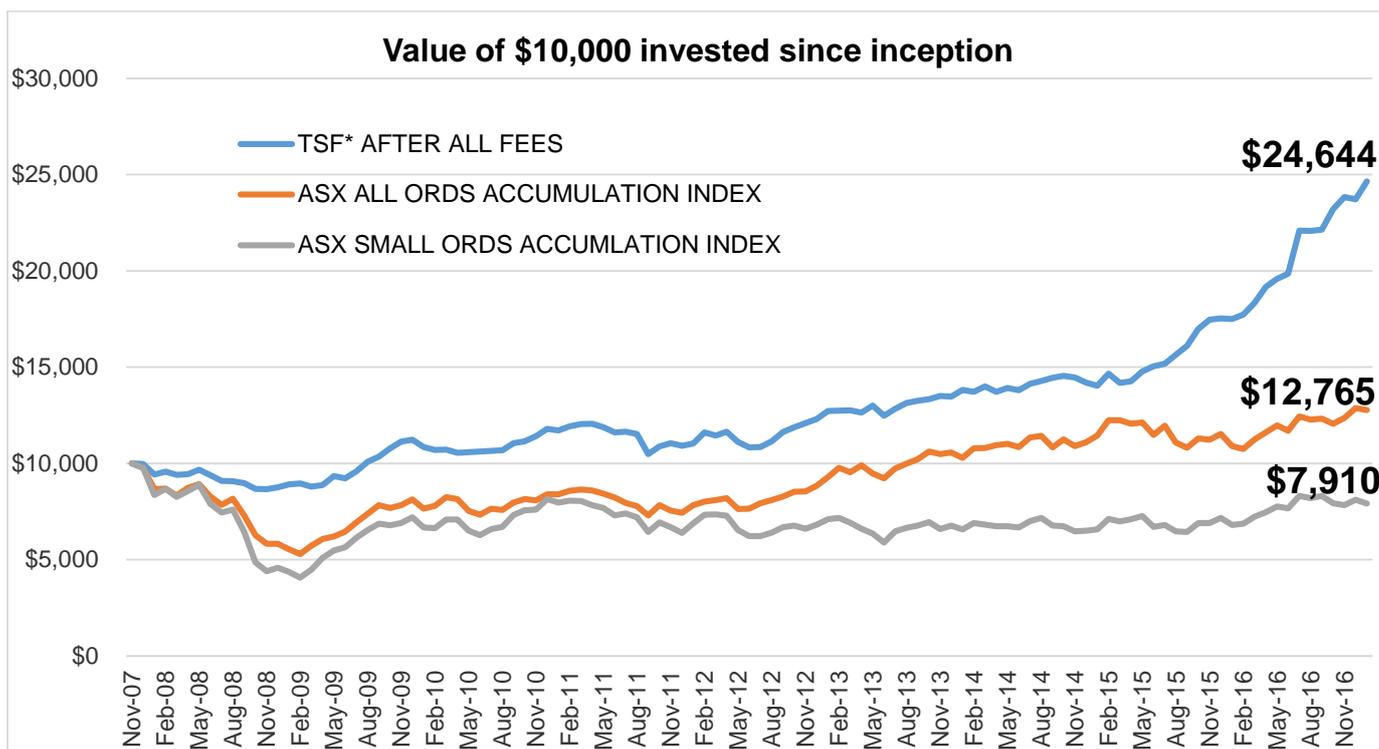


# The Supervised Fund (TSF)

## Monthly Report – January 2017



PERFORMANCE ANALYSIS	TSF AFTER ALL FEES	BENCHMARK	ALL ORDS ACCUM
Month Ending 31 January 2017	3.95%	0.42%	-0.77%
6 months	11.54%	2.50%	2.65%
12 months	40.87%	5.00%	17.09%
3 years p.a	21.29%	5.00%	7.49%
Since Inception p.a (Dec 2007)	10.34%	5.00%	2.70%



\*Please note TSF returns assume reinvestment of all distributions (as do the indices).

At 31 January the portfolio was composed as follows:<sup>1</sup>

Top 15 Positions	% of NAV
Kangaroo Island Plantation Timbers Ltd	32.0%
HGL Limited	10.1%
Cash	7.1%
Gale Pacific Limited	6.3%
Bell Financial Group Limited	6.1%
Hillgrove Resources Limited (notes, shares and options)	6.0%
Samuel Terry Absolute Return Fund	4.4%
Base Resources Limited	3.6%
Po Valley Energy Limited	3.5%
NZME Limited	3.1%
ETFs Physical Gold (AUD)	2.7%
Osprey Medical Inc CDI	2.7%
Ramelius Resources Limited	1.9%
Sirtex Medical Limited	1.7%
Beadell Resources Limited	1.6%

- Fund net asset value: \$20.85m.
- 1% of capital is invested in non-ASX listed investments (excluding cash).
- 1.4% of capital is invested in ASX200 companies.
- 15% of capital is invested in oil, gas and resources companies (excluding gold).
- 7% of capital is invested in gold mining companies. A further 2.7% of capital is invested in physical gold.
- 72% of capital is invested in companies with a market capitalisation of less than \$150m.

<sup>1</sup> Please note we treat our investment in the Samuel Terry Absolute Return Fund as an allocation to non-ASX200 equities.

## Commentary

The Fund's positive performance during January was mostly owing to an 89% increase in the value of our position in Hillgrove Resources Limited (HGO). We detailed our HGO thesis in the [December 2016 Monthly Report](#). During January the AUD copper price increased a further 4%, which aided the company's prospects. We still think the stock is inherently undervalued at 6c. If copper prices remain at present levels and the mine plan yields expected copper volumes, HGO could generate 15c of cash backing per share within 3 years.

Other positive contributors included Base Resources Limited (BSE), which increased 25% as the company improved its balance sheet and the outlook for mineral sands prices improved; and our gold allocation, which increased 6%. Our two largest positions, Kangaroo Island Plantation Timbers Limited and HGL Limited, did not contribute materially to January's return.

Corporates have begun releasing half year (or full year) results. During company reporting season our practice is to participate in as many meetings and teleconferences as possible. Meetings discussing sectors and stocks we don't like are often just as valuable as those with the management teams with which we have invested. We think it is important to understand how our competitors are thinking and where they see growth. So far only the larger companies have reported. We found the below excerpts intriguing.

### Excerpt from Goldman Sachs Group Inc. December Quarterly Conference Call

***Sell Side Analyst:** Good morning... Back in the first quarter of 2015, the Swiss repegged and things went bonkers for a couple weeks and you guys made a ton more money, but then things died down for like six quarters. This quarter, we obviously had the election and a couple other events, and things went bonkers. But it feels very different to me and more permanent, and client needs are changing and we have monetary policy diversion. So I'm leading the witness here, but does it feel different to you guys? ...*

***Goldman Sachs CFO:** It's a great question. The quarter you're reflecting on, obviously the first quarter of 2015, very strong quarter for us. We had nearly a 15% ROE. That was the quarter, as you point out, there were monetary policy announcements, and I think there was a little bit of a relief activity there because that was viewed as increased monetary policy, QE, and that was a trend. Now, as we all saw, over a period of time, that ultimately led more to concerns about lacklustre growth and it led to concerns about deflation, and then it led to concerns ultimately that actually QE policies at the limit may not be effective and may actually present risks.*

*I would say you can look at our fourth quarter, but I think it'd be better to look really at the second half of the year. And what we saw from clients in the second half of the year was **basically a build of confidence**, an expectation that we might see stronger fiscal policy, convergence of interest rates that we weren't headed into a deflationary cycle, more confidence about economic growth. **And so I would say there was increased optimism around the world. Now those are the kind of things that always drive our business. Our clients are very sensitive to that, it changes sentiment.***

We found the above exchange interesting, we expect one of the biggest players in the US capital markets has a great insight into corporate risk-taking appetite. It seems US corporates are up-beat.

## **Excerpt from Rio Tinto Limited Half Year Results Conference Call**

**Sell Side Analyst:** *...I guess the question I have is, is there a point where there's – I can't believe I'm saying this 12 months after last year, but is there a point where there's too much cash return? And further to Menno's question [another analyst], can you start to think about other growth projects to speed up at this point?*

This question echoed the sentiment on the Rio Tinto conference call. The pro-growth attitude is a stark contrast to the exchanges which took place 12 months ago when the investment community goaded resource companies to cut capital expenditures and focus on cash returns. Natural resources are back in vogue!

While we do not amend investment theses based on such anecdotal evidence, it is useful for understanding the psychology of the market. We seek to position the portfolio in a manner which maximises return and minimises risk over a multitude of market scenarios. The fund is open to new investors and we welcome any queries on the portfolio, investment strategy, and outlook.

Mitch Taylor – 20 February 2017.

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