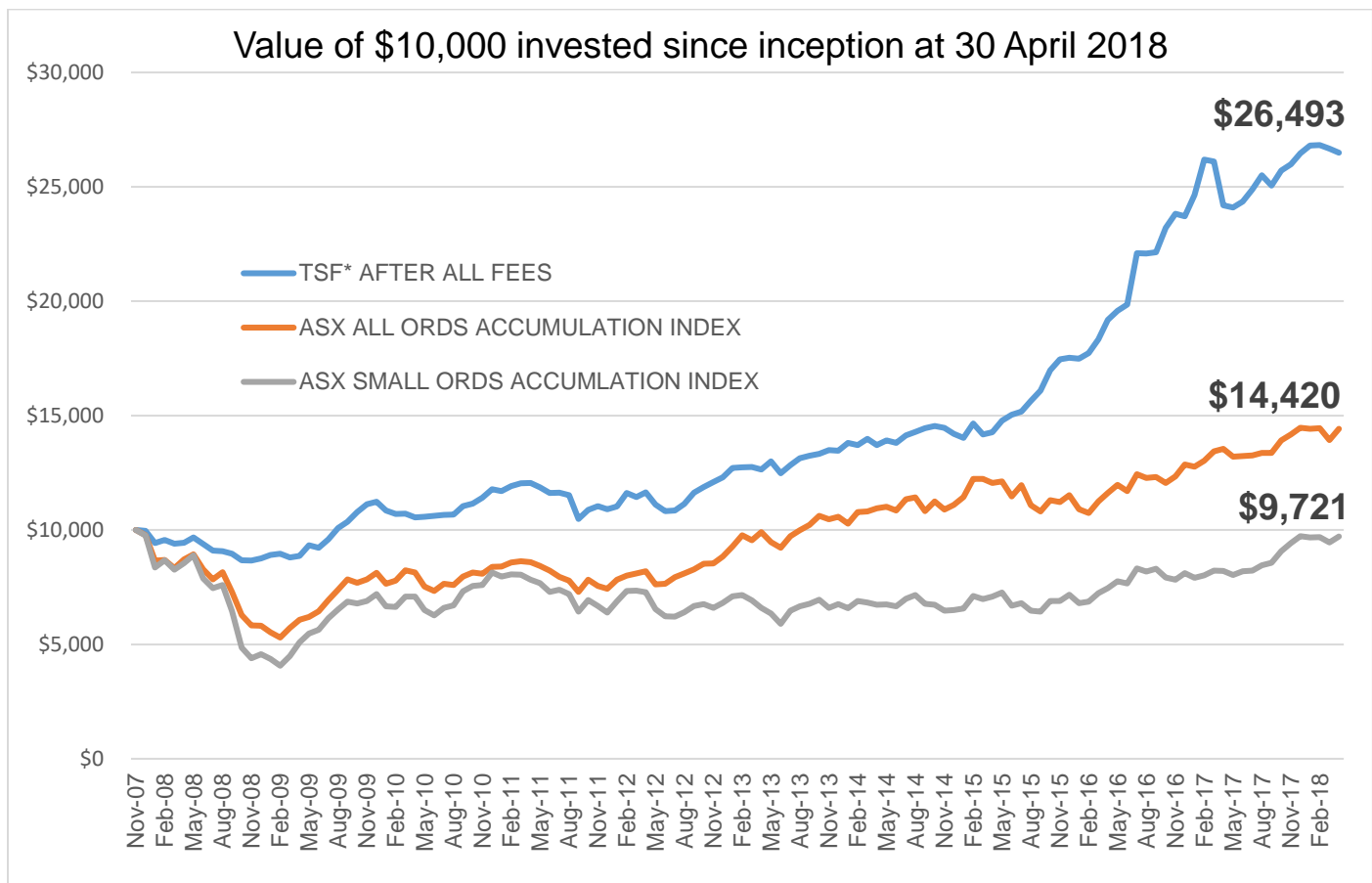


## The Supervised Fund (TSF) Monthly Report – April 2018

Performance Analysis (as at 30 April 2018)	TSF after all fees	Small Ords Accumulation	All Ords Accumulation
1 month	<b>-0.6%</b>	2.8%	3.5%
1 year	<b>9.5%</b>	18.4%	6.4%
2 years p.a.	<b>17.5%</b>	14.2%	11.4%
3 years p.a.	<b>22.9%</b>	11.1%	6.2%
5 years p.a.	<b>16.0%</b>	8.0%	7.8%
7 years p.a.	<b>11.9%</b>	3.1%	7.7%
10 years p.a.	<b>10.9%</b>	1.3%	5.2%
Since inception p.a. (Dec. 2007)	<b>10.1%</b>	-0.3%	3.7%

Past performance is no indication of future performance



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

## Portfolio at 30 April 2018

Top 10 Positions	% of NAV
Kangaroo Island Plantation Timbers Limited	25%
Cash	19%
HGL Limited	13%
Hillgrove Resources Limited	13%
Po Valley Energy Limited	8%
Engenco Limited	6%
Bisalloy Steel Group Limited	5%
Physical Gold	5%
Spicers Limited	3%
Bell Financial Group Limited	2%

- 0.4% of capital is invested in put and call options over stock market indices.
- 1% of capital is invested in non-ASX listed investments (excluding cash).
- 21% of capital is invested in oil, gas and resources companies (excluding gold).
- 5% of capital is invested in physical gold and gold mining companies.
- 68% of capital is invested in companies with market capitalisations of less than \$150m.

## Commentary

The Supervised Fund's April return of -0.6% was largely driven by decreases in the share prices of Bisalloy Steel (down 7%), HGL (down 6%) and Kangaroo Island Plantation Timbers (down 5%). These were partially offset by increases in Hillgrove Resources (up 13%), Po Valley Energy (up 8%) and Engenco (up 6%).

Bisalloy stock declined on no negative news, following a rise of 9% in March. HGL and Kangaroo Island similarly weakened for no apparent reason.

Hillgrove Resources shares appreciated after the company released a favourable March quarterly report. Copper production was the highest since December 2013. The company reiterated FY18 guidance for production and costs, stating it is still on track to pay off debt and return all creditors to normal terms by the end of this calendar year. Based on the remaining mine life, with 40% of expected future copper production currently fixed at or above the current A\$ copper price, Hillgrove could generate \$104m in free cash to equity holders by September 2020.<sup>1</sup> The company has sufficient credits to pay up to \$71m in fully franked dividends. Hillgrove's market value at the last traded share price of 9c is \$51m.

Po Valley shares appreciated during April on no material news. In May 2018, the company is distributing its 100m shares in former subsidiary, Coro Energy (previously Saffron Energy) to shareholders. Consequently, The Supervised Fund will receive 6.4m shares in Coro, which is worth approximately A\$450,000 at current prices. This is a pleasing return to shareholders.

On 26 April, we entered into an agreement with Po Valley to purchase \$500,000 worth of convertible notes. These notes mature in three years and are convertible at 4.2c per share (2% above the current share price), with an interest rate of 8% per annum. This was part of a \$2.5m convertible note issue, of which \$1m was taken up by Po Valley directors and \$500,000 by the Constable family. The proceeds of the issue will be used to advance gas fields Selva and Teodorico towards production and complete seismic evaluation on oil exploration licence Torre del Morro.

We continue to believe Po Valley is undervalued, with an independent expert's report released to the ASX in March valuing Selva and Teodorico alone at €46.8m (about A\$75m or 12.6c per share). This is a 213% premium to the company's present market value of \$24m or 4.1c per share.

<sup>1</sup> Assuming the present A\$ copper price is received for the remaining 60% of production. A 10% reduction in the \$A copper price would lead to \$84m of cash generated.

Over the last few months, we have been reducing the number of our positions. Our aim is to have a concentrated portfolio of high conviction stocks where we have an intimate understanding of each company. When buying and selling shares in microcaps, it is essential to have a greater insight into the company than most other investors and feel confident that the market has misjudged its valuation. This involves meeting with management, visiting operations and doing thorough due diligence on an industry. To this end, we have reduced our holdings from 21 in January 2018 to 10 as at the time of writing.

David Constable

8 May 2018

## The Supervised Fund's Historical Performance

	<b>TSF after all fees</b>	<b>Small Ords Accumulation</b>	<b>All Ords Accumulation</b>
Since inception p.a. (Dec 2007)	<b>10.1%</b>	-0.3%	3.7%
Financial year to date	<b>8.8%</b>	18.6%	8.9%
Calendar year to date	<b>0.1%</b>	-0.1%	-0.3%
FY17	<b>22.6%</b>	13.1%	7.0%
FY16	<b>32.0%</b>	2.0%	14.4%
FY15	<b>9.0%</b>	5.7%	0.4%
FY14	<b>10.6%</b>	17.6%	13.1%
FY13	<b>15.3%</b>	20.7%	-5.3%
FY12	<b>-6.8%</b>	-7.0%	-14.6%
FY11	<b>9.4%</b>	12.2%	16.4%
FY10	<b>15.1%</b>	13.8%	11.2%
FY09	<b>-1.7%</b>	-22.1%	-28.6%

The Fund's benchmark is 5% per annum. Small Ords Accumulation and All Ords Accumulation are included for the sake of comparison to the predominant Australian equity indices.

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