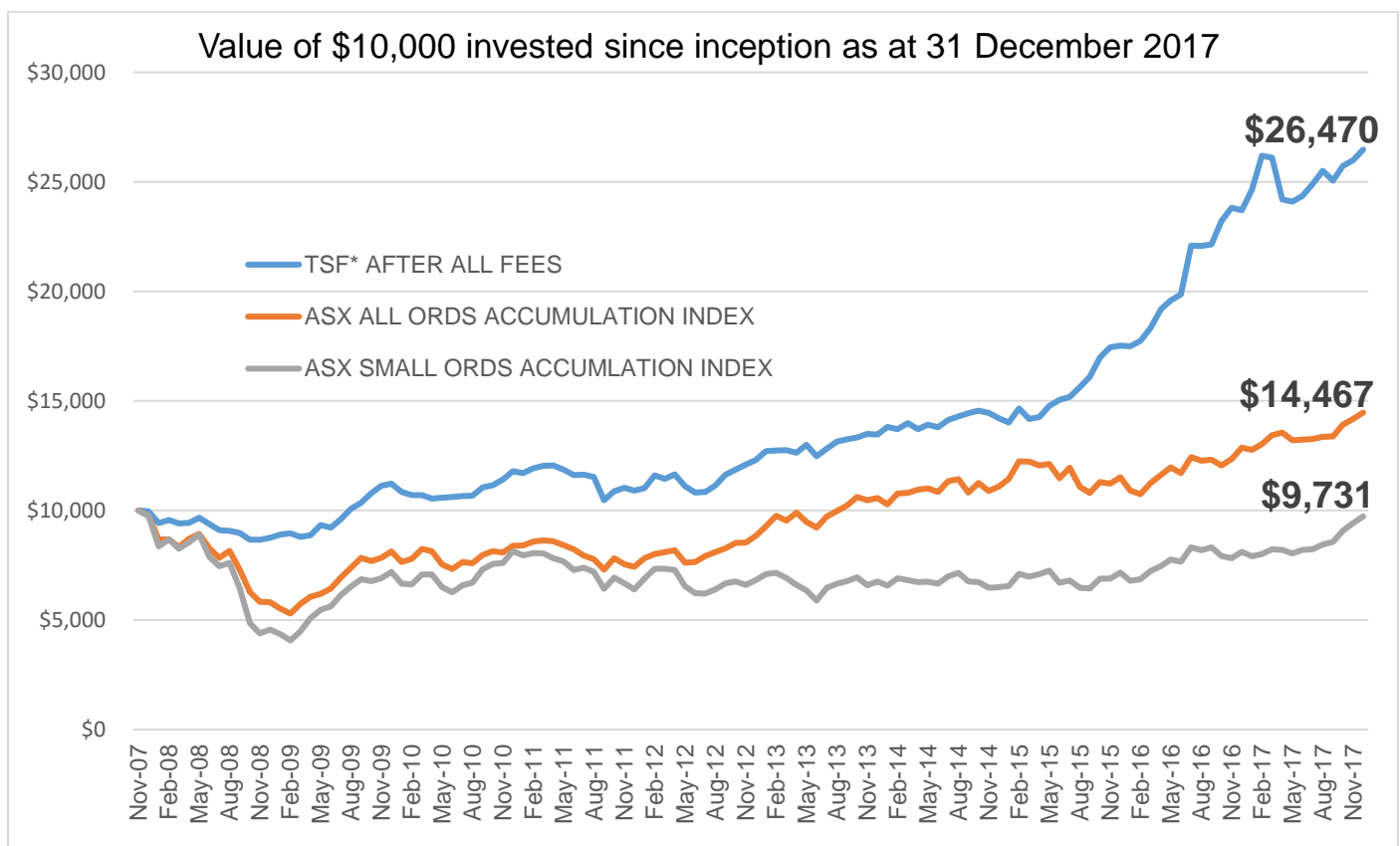


## The Supervised Fund (TSF) Monthly Report – December 2017

Performance Analysis (as at 31 December 2017)	TSF after all fees	Small Ords Accumulation	All Ords Accumulation
1 month	<b>1.9%</b>	3.2%	2.0%
12 months	<b>11.6%</b>	20.0%	12.5%
3 years p.a.	<b>23.1%</b>	14.4%	9.2%
5 years p.a.	<b>16.6%</b>	7.4%	10.4%
7 years p.a.	<b>12.3%</b>	2.6%	8.1%
10 years p.a.	<b>10.3%</b>	0.0%	4.0%
Since inception p.a. (Dec. 2007)	<b>10.2%</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 31 December 2017

Top 10 Positions	% of NAV
Kangaroo Island Plantation Timbers Limited	26%
Cash	13%
Hillgrove Resources Limited	11%
HGL Limited	10%
Po Valley Energy Limited	7%
Bisalloy Steel Group Limited	5%
Engenco Limited	5%
Physical Gold	4%
Bell Financial Group Limited	3%
Base Resources Limited	3%

- 0.3% of capital is invested in put options over stock market indices.
- 1% of capital is invested in non-ASX listed investments (excluding cash).
- 22% 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 December return of 1.9% was largely driven by increases in the share prices of Engenco Limited (up 15%), Hillgrove Resources Limited (up 5%), and Kangaroo Island Plantation Timbers Limited (up 3%). Engenco's price continued to appreciate with strong buying following November's results upgrade. Hillgrove was positively impacted by a 9% rise in the price of copper, which reached a near four-year high at the end of December. The company passed a significant milestone from a corporate perspective this month, with the early redemption of its convertible notes. 99.9% of the notes were converted into shares, reducing Hillgrove's borrowings by \$10.5m to \$9.5m. Kangaroo Island's share price was flat month-on-month, closing at \$2.41. However, it contributed positively to our December return since we valued the stock at \$2.35 at the end of November (the last bid price). We are confident valuing it this month at the last-traded price. The shares recovered well after the capital raising at \$2.00 in early December and for the first two weeks of January have been trading around \$2.40-\$2.50 with good turnover.

The largest detractor during December was Base Resources Limited (down 11%). At the end of the month, Base announced it was raising \$100m through an institutional placement and entitlements offer at 25.5c per share, a 20% discount to its last traded price of 30.5c. The discounted price and dilutive impact of the raise led to short term downward pressure on the share price, which has since recovered to 27c. The funds will be used for the acquisition of the Toliara Sands Project in Madagascar. We believe this is an exciting step forward for the company and an impressive coup, with Base increasing its market cap by thirty per cent. Consequently, we are taking up our rights.

## First-half of FY18

We finished the fiscal half-year with an 8.7% return net of fees. Going into 2018, we remain confident in our holdings. Our high conviction is evident in the fact that our top five positions account for 69% of invested unitholder capital. Notwithstanding our continued optimism in Kangaroo Island's future, we intend to reduce our position to around 15-20% of the fund's NAV when the opportunity arises. It is worth stressing that this is purely prudential and no reflection on our view of the company's prospects.

We are happy to accumulate cash and would be pleased with a 20% weighting. We are equally happy to invest in new stocks we believe are undervalued and are as busy as ever trawling the market. We are currently researching several potential companies. Nevertheless, we note that markets are particularly hot and investment opportunities scarce. The average price to tangible book value per share amongst the ASX Small Ordinaries is 3.8x, the highest level since May 2008. We maintain our insurance in the form of put options over the S&P, which account for 0.3% of unitholder capital and cover 21% of the portfolio.

David Constable, Portfolio Manager

17 January 2018

	<b>TSF after all fees</b>	<b>Small Ords Accumulation</b>	<b>All Ords Accumulation</b>
Since inception p.a. (Dec 2007)	10.2%	-0.3%	3.7%
Financial year to date	8.7%	18.7%	9.3%
Calendar year to date	11.6%	20.0%	12.5%
FY17	22.6%	7.0%	13.1%
FY16	32.0%	14.4%	2.0%
FY15	9.0%	0.4%	5.7%
FY14	10.6%	13.1%	17.6%
FY13	15.3%	-5.3%	20.7%
FY12	-6.8%	-14.6%	-7.0%
FY11	9.4%	16.4%	12.2%
FY10	15.1%	11.2%	13.8%
FY09	-1.7%	-28.6%	-22.1%

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.

## **DISCLAIMER**

Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975, is the Trustee for The Supervised Fund. Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT).

This monthly performance report has been prepared by Supervised Investments Australia Limited ACN 125 580 305 AFSL 317155 (SIAL) to provide you with general information only. In preparing this report, we did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither SIAL, Equity Trustees nor any of its related parties, their employees or directors, provide and warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product.