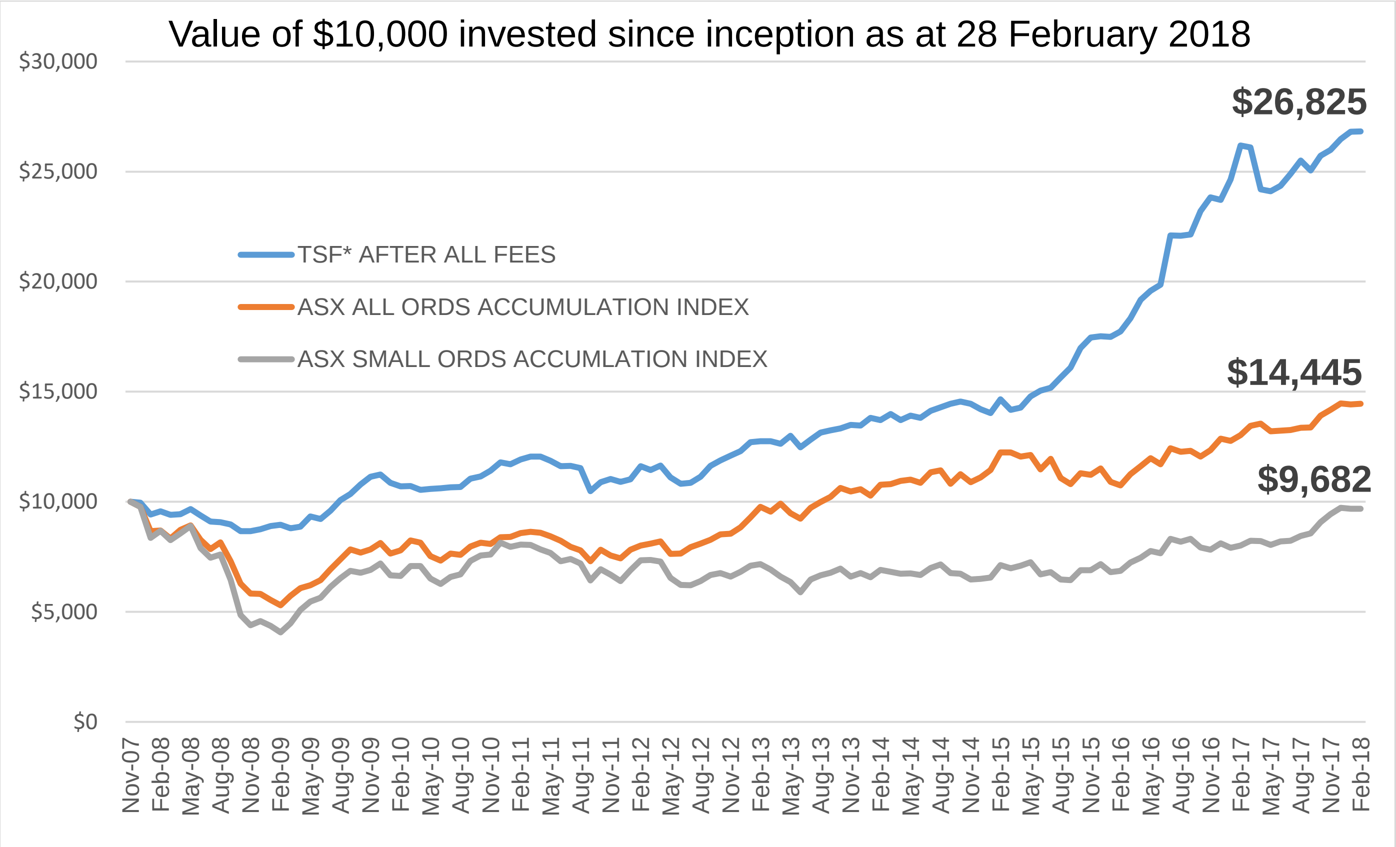
SUPERVISED INVESTMENTS AUSTRALIA

The Supervised Fund (TSF)

Monthly Report – February 2018

Performance Analysis (as at 28 February 2018)	TSF after all fees	Small Ords Accumulation	All Ords Accumulation
1 month	**0.1%**	0.0%	0.2%
3 months	**3.2%**	2.7%	1.9%
2 years p.a.	**22.9%**	16.6%	15.0%
3 years p.a.	**22.3%**	10.8%	5.7%
5 years p.a.	**16.1%**	6.2%	8.2%
7 years p.a.	**12.3%**	2.7%	7.7%
10 years p.a.	**10.9%**	1.1%	5.2%
Since inception p.a. (Dec. 2007)	**10.3%**	-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 28 February 2018

Top 10 Positions	% of NAV
Kangaroo Island Plantation Timbers Limited	26%
Cash	17%
Hillgrove Resources Limited	12%
HGL Limited	10%
Po Valley Energy Limited	8%
Engenco Limited	5%
Bisalloy Steel Group Limited	5%
Physical Gold	4%
Bell Financial Group Limited	3%
CTI Logistics Limited	1%

- 0.2% of capital is invested in put options over stock market indices.
- 2% of capital is invested in non-ASX listed investments (excluding cash).
- 20% of capital is invested in oil, gas and resources companies (excluding gold).
- 5% of capital is invested in physical gold and gold mining companies.
- 66% of capital is invested in companies with market capitalisations of less than $150m.

Commentary

The Supervised Fund's February return of 0.1% was largely driven by increases in the share prices of Bell Financial Group (up 10%), Engenco (up 6%) and HGL (up 5%).

Bell Financial shares appreciated after the company released its full year results, with net profit up 26% on 2017 and the declaration of yearly dividends of 7.5c, the highest since 2010. The performance was largely driven by strong growth in traditional retail equities broking and equity capital markets. In terms of outlook, the CEO, Alistair Provan, wrote that so far, 2018 has been the best start Bell has had in ten years. We remain optimistic about the company's price, which still seems cheap given it is trading on a 12-month dividend yield of 8.6%.

Engenco's share price rose after the company released its half-yearly results. Net profit was up 120% year-on-year, driven by increased activity in the mining and infrastructure sectors. We spoke to the CEO, Kevin Pallas, and Chairman, Vince De Santis, in our office after the announcement and have continued faith in the company's direction. There are significant opportunities for medium to long-term growth in, amongst other areas, the rail and gas compression businesses.

HGL had an eventful and favourable month. Early on, it announced the divestment of its loss-making subsidiary, Leutenegger, for $2m. We were pleased with this outcome, since Leutenegger made a loss of around $1m in FY17. Two weeks later, HGL announced its acquisition of Pegasus Healthcare for $4.45m. The business sells specialised mattresses that prevent pressure ulcers (also known as bedsores). Its main customers are hospitals and nursing homes. The existing CEO will retain 30% of the business and remain in his executive role. Towards the end of the month, HGL had its AGM. Both the Chairman's and CEO's addresses to shareholders were encouraging, with growth expected across the company's four subsidiaries and JV. HGL's share price has continued to increase, and as at the time of writing is up 6% in the first week of March. We will be visiting the company's head office in Macquarie Park this month.

The fund's largest detractors during February were Hillgrove Resources (down 5%) and Base Resources (down 1%). Both companies' share prices decreased on no news.

Reporting season and Po Valley Energy

During February, we attended thirty-four company results presentations. Some of our early impressions of this reporting season are: renewed interest in the coal and gas sectors, engendered by the scarcity of supply in eastern Australia; continued growth in the mining sector; the continuation of a gradual but palpable turnaround in the Western Australian economy; and generally stable economic conditions across the country. Reporting season continues into March, and this month we will attend another twenty-two company presentations.

Po Valley Energy had another significant episode after month-end, with the termination of the sale of their gas fields to Saffron Energy (its 50%-owned subsidiary, listed on the London AIM). We view this as a particularly favourable outcome for the company. Po Valley was selling its assets for the equivalent of about A$15m. An independent expert's report, commissioned in line with ASX regulations for material transactions, valued these assets at around A$75m, a 4-times premium to the proposed sale price. The planned transaction, with such unfavourable terms, had been weighing down on Po Valley's share price. The company is now worth around $A80m, comprised of its wholly owned assets valued at A$75m by the independent expert, plus its 50% stake in Saffron, worth about A$5m. Nevertheless, Po Valley's share price has stayed flat, presumably due to the complexity of its corporate affairs. With a current market capitalisation of A$24m, we believe it is around 200% undervalued. We will update unitholders in due course.

7 March 2018

The Supervised Fund's Historical Performance

	TSF after all fees	Small Ords Accumulation	All Ords Accumulation
Since inception p.a. (Dec 2007)	10.3%	-0.3%	3.7%
Financial year to date	10.1%	18.1%	9.1%
Calendar year to date	1.3%	-0.5%	-0.2%
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.

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