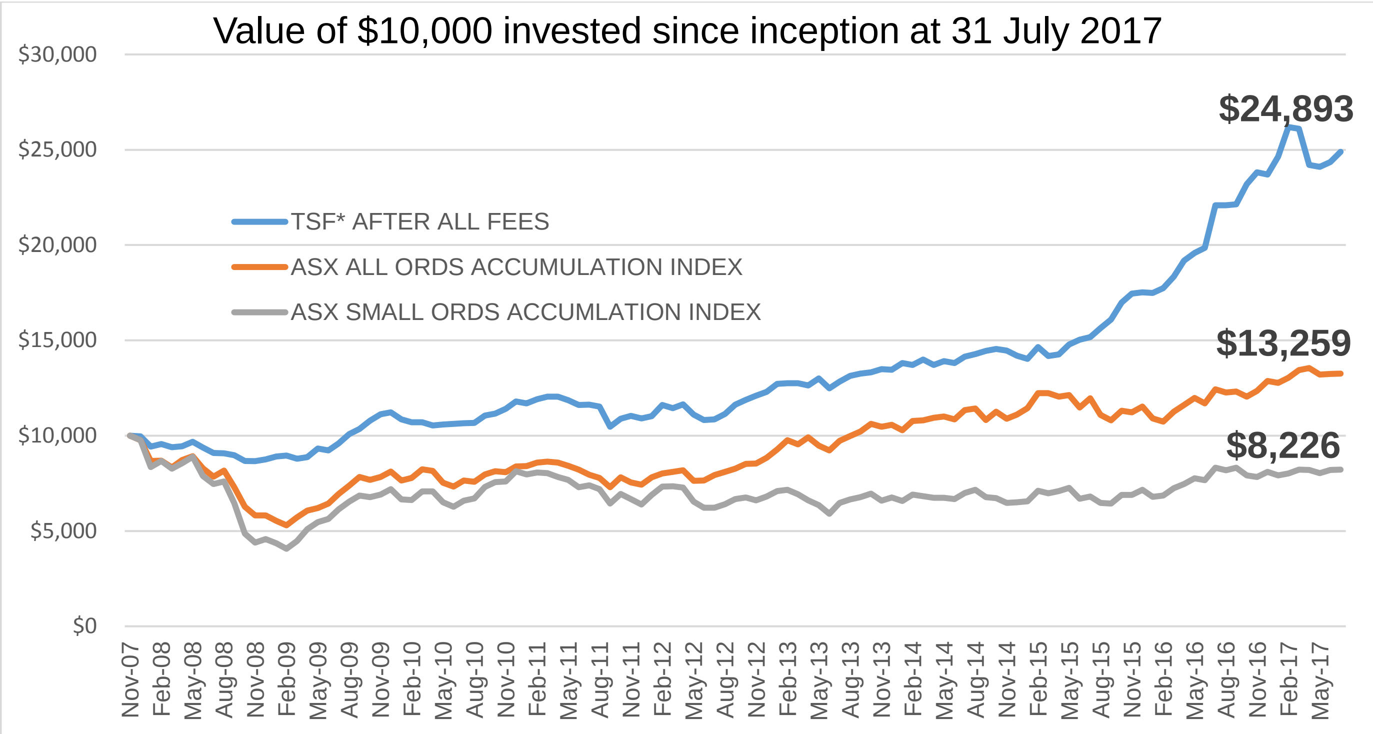
The Supervised Fund (TSF)

Monthly Report – July 2017

Performance Analysis (as at 31 July 2017)	TSF after all fees	All Ords Accumulation	Benchmark
1 month	**2.2%**	0.2%	0.4%
6 months	**1.0%**	3.9%	2.5%
12 months	**12.7%**	6.6%	5.0%
3 years p.a.	**20.3%**	5.3%	5.0%
Since inception p.a. (Dec. 2007)	**9.9%**	3.0%	5.0%



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

Portfolio at 31 July 2017

Top 15 Positions	% of NAV
Kangaroo Island Plantation Timbers Ltd	22%
Cash	13%
HGL Limited	11%
Hillgrove Resources Limited (equity, notes and calls)	10%
Gale Pacific Limited	6%
Nine Entertainment Co Limited	4%
ETFS Physical Gold	4%
Po Valley Energy Limited	5%
Sirtex Medical Limited	3%
Bell Financial Group Limited	3%
Ariadne Australia Limited	3%
Bisalloy Steel Group Limited	3%
NZME Limited	2%
Base Resources Limited	2%
HT&E Limited	1%

- 0.6% of capital is invested in (put) options over stock market indices.
- 2% of capital is invested in non-ASX listed investments (excluding cash).
- 7% of capital is invested in ASX200 members.
- 18% of capital is invested in oil, gas and resources companies (excluding gold).
- 6% of capital is invested in physical gold and gold mining companies.
- 63% of capital is invested in companies with a market capitalisation of less than $150m.

Commentary

The Fund's result in July was mostly driven by gains in Bisalloy Steel Group Limited (up 38%), Hillgrove Resources Limited (up 26%) and Nine Entertainment Co Limited (up 4%), with the biggest detraction coming from Base Resources Limited (down 9%).

Bisalloy Steel Group Limited (BIS)

Over the last several months, we invested 3% of unitholder capital in Bisalloy. The company is Australian's only producer of quench and tempered (Q&T) steel, one of the most tensile, tough and abrasive kinds of steel. The production of Q&T steel is not easily replicated and relies on IP concerning greenfeed formulations, such as the timings and temperatures required to achieve the desired metallurgical changes. The other major producers of Q&T steel are Swedish manufacturers Swebor and SSAB.

Bisalloy's 23,600m^2 wholly owned processing plant in Unanderra, near Wollongong, produces steel plates used in resources, construction, and defence. When we visited the plant in April we were impressed by the new management's lean operational philosophy. Automation efficiencies mean production is easily scalable and plant capacity is near 30% above current output.

Weakness in the resources sector – which has historically represented upwards of 70% of sales – saw Bisalloy's revenue cut in half between 2011 and 2016 as margins and output deteriorated. Consequently, Bisalloy has been attempting to increase exposure to defence–related products, and in March 2017 announced a JV with Swedish Q&T producer Swebor for the sale and distribution of armour steel products to the Middle Eastern civilian defence market. In addition, in August 2017, they announced a strategic partnership with Rheinmetall, the German automotive and defence engineer company, to supply steel for both their Australian and global operations.

Tough market conditions in the resources sector over the past few years resulted in the deferral of many routine maintenance CAPEX investments. The recent improvement in commodity prices and resource company managers' sentiment seems to be spurring catch-up in mining sustaining CAPEX. Rio Tinto recently guided for sustaining CAPEX to double over the next 6 months. We were particularly encouraged when one of Bisalloy's largest customers declared there is presently such demand for steel plate that suppliers (such as Bisalloy) had not been able to produce enough to keep up. This tailwind is helping Bisalloy increase its capacity utilisation and we understand they have recently reintroduced a second evening work-shift.

We bought Bisalloy at a 25% discount to NTA and an EV/mid-cycle EBITDA of less than 3x. The stock is illiquid and it took us 5 months to establish our 3% weight. Our thesis was if the company can continue its current run-rate and the mining CAPEX catch-up continues into 2018, capacity utilisation and earnings would rise. Furthermore, once the mining CAPEX reverts to mid-cycle levels, new work from the defence sector should sustain earnings growth. Recently, there has been discussion about China dumping cheap steel into Australia. We are not worried about the impact on Bisalloy, who offer high tensile steel for specialist applications, where cheap steel would not be an alternative. One of the biggest short term risks, however, is rising energy prices. Whilst the increased cost of electricity and gas may impact Bisalloy's margins, we still feel there will be enough future growth in revenue and earnings to mitigate the effect.

On 28 July, Bisalloy released a profit upgrade guiding for a 55% increase in EBITDA for FY18. The stock has subsequently rallied 68% from our entry. We think it's still cheap, trading on a 1–year forward EV/EBITDA multiple of 4x, and are looking forward to updating shareholders on this position in the future.

Mitch Taylor & Joseph Constable, 22 August 2017.

DISCLAIMER

Supervised Investments Australia Limited ACN 125 580 305 AFSL 317155 (SIAL) is the Investment Manager and Trustee of The Supervised Fund (TSF or Fund).

Investors should consider the TSF Information Memorandum (IM) issued by SIAL before making any decision regarding the Fund. The IM contains important information about investing in the Fund and it is important investors obtain and read a copy of the IM before making a decision about whether to acquire, continue to hold or dispose of units in the Fund. You should also consult a licensed financial advisor before making an investment decision in relation to the Fund. A copy of the IM and continuous disclosures may be obtained from www.supervisedinvestments.com

SIAL believes that the information contained in this document is accurate when issued. SIAL does not warrant that such information or advice is accurate, reliable, complete or up to date, and to the fullest extent permitted by law, disclaims all potential liability of SIAL and its associates. This document should be regarded as general information only rather than advice. In preparing this document, SIAL did not take into account the investment objectives, financial situation and particular needs of any individual person.

The information contained in this document must not be copied or disclosed in whole or in part without the prior written consent of SIAL, and SIAL accept no liability whatsoever for the actions of third parties in this respect. It is present for informational purposes only and is not to be construed as a solicitation or an offer or recommendation to buy or sell any securities. Any opinions expressed in this document may be subject to change. SIAL is not obliged to update such information. The information must not be used by recipients as a substitute for the exercise of their own judgement and investigation. Neither SIAL nor any of their directors, employees or agents accept any liability for any loss or damage arising out of the use of all or part of, or any omission, inadequacy or inaccuracy in this document.

SIAL does not guarantee the performance of the Fund or the repayment of any investor's capital. To the extent permitted by law SIAL, including its directors, senior executives, employees, consultants, advisors, officers and authorized representatives, are not liable for any loss or damage arising as a result of reliance placed on the contents of this document. SIAL only provides services to wholesale clients, as defined in section 761G of the Corporations Act. Past performance is not indicative of future performance. Information in this document is current as at 31 July 2017.